Canada Life

2000 Annual Report

Division and Principal Offices	Operating Locations	Distribution Channels	Products and Services: Wealth Management	Products and Services: Protection
Canada *Toronto, Ontario* *Regina, Saskatchewan* *Montreal, Quebec*	*In all 10 provinces:* *6 individual marketing centres* *18 group sales offices* *3 regional group claims and services offices*	*Independent brokers, consulting firms, financial institutions, direct and internet*	*Group and individual fixed and variable annuities* *Group pension plans* *Group stock purchase plans* *Profit sharing plans* *Investment management services*	*Individual life, disability and critical illness insurance* *Group life, critical illness, disability and job loss insurance* *Group dental and extended health care plans*
United Kingdom *Potters Bar, Hertfordshire* *Castletown, Isle of Man*	*Throughout the United Kingdom:* *17 business centres* *3 regional sales offices* *3 group sales offices* *Overseas: International account managers on the Isle of Man covering the United Kingdom, Sweden, Finland, Gibraltar, Cyprus and Channel Islands*	*Direct sales consultants, independent financial advisors and benefit agencies*	*Immediate and deferred individual annuities* *Group payout annuities for individuals retiring from company sponsored pension plans* *Unit-linked life insurance and pensions* *Unit trusts and Individual Savings Accounts (ISAs)* *Investment and savings products (including tax efficient offshore products)*	*Individual term life insurance (including participating), critical illness and disability insurance* *Group term life insurance and disability income insurance*
United States *Atlanta, Georgia*	*In all 50 states and the District of Columbia:* *22 regional sales offices* *27 group offices*	*Independent agent field force and brokers* *Salaried group sales representatives*	*Individual fixed and variable annuity products* *Group accumulation annuity products and group payout annuities*	*Individual and group life insurance* *Group accidental death, disability, dental, stop loss and critical illness insurance*
Republic of Ireland *Blackrock, Dublin*	*Throughout Ireland:* *13 branch offices* *Cologne, Germany*	*Financial consultants and brokers*	*Investment and savings unit-linked products* *Unit-linked pension products* *Compulsory purchase annuities and Approved Retirement Funds*	*Individual life, disability and critical illness insurance* *Group life and disability insurance*
International and Reinsurance *Toronto, Ontario* *Regina, Saskatchewan*	*In the following countries: United States (including Puerto Rico, Virgin Islands, Guam and American Samoa), Brazil, Hong Kong, Macau, Bermuda, Bahamas and Cayman Islands*	*Reinsurance directly through sales representatives in the United States, insurance brokers and general agents*	*Annuities and pensions* *Investment and savings products*	*Direct reinsurance and retrocession of life, disability, health and accident insurance as well as financial reinsurance* *Life, health and disability insurance*

CONTENTS

CANADA LIFE FINANCIAL CORPORATION, established in 1999, is the holding company for its principal subsidiary, The Canada Life Assurance Company, and is traded on the Toronto and New York Stock Exchanges.

THE CANADA LIFE ASSURANCE COMPANY, founded in 1847, is Canada's first domestic life insurance company. Today, we are a diversified international life insurance and financial services provider committed to creating exceptional value for our shareholders and customers by focusing on winning markets where we can be leaders; by doing business with the utmost integrity; and by achieving excellence in our financial and investment performance, our products and services, and our people.

During our first year as a public company, we continued our strong focus on financial performance as a key measurement of success. Our shares yielded a total return of 90 per cent in 2000 and 128 per cent since we demutualized in late 1999, significantly outperforming the Toronto Stock Exchange.

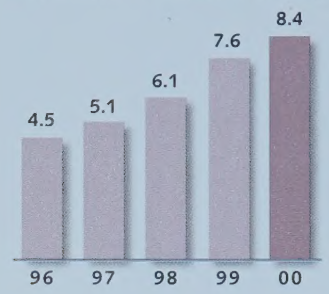
THIS REPORT provides management with the opportunity to discuss the financial performance and condition of Canada Life Financial Corporation and The Canada Life Assurance Company and, as such, may contain forward-looking information about strategies and expected financial results. Various factors, many difficult to predict and to control, could cause actual results to differ materially from results projected in the forward-looking statements. Accordingly, the reader is cautioned against undue reliance on these statements.

Financial Strength Ratings:

A.M. Best Company	A+	(2nd out of 16 ratings)
Moody's Investors Service	Aa3	(4th out of 21 ratings)
Standard & Poor's	AA	(3rd out of 21 ratings)

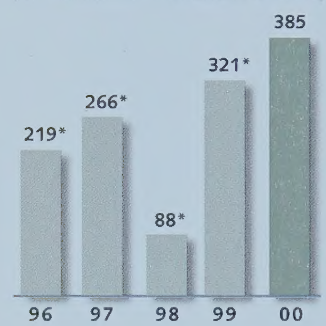
This annual report is for the shareholders of Canada Life Financial Corporation and for the policyholders of The Canada Life Assurance Company. Separate financial statements are provided for each Company.

Premiums
(in billions of Canadian dollars)



Compound Annual Growth Rate of 17%

Shareholders' net income
(in millions of Canadian dollars)

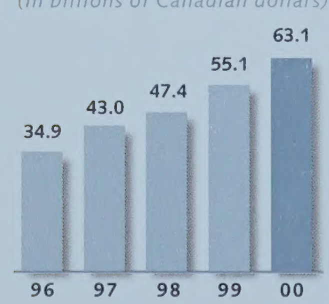


Compound Annual Growth Rate of 15%

Return on shareholders' equity (%)

Return on shareholders' equity reached 13% in 2000

Assets under administration
(in billions of Canadian dollars)



Compound Annual Growth Rate of 16%

** Pre-demutalization, see page 134 footnote (4)*

David A. Nield
Chairman, President and Chief Executive Officer

Dear Shareholders and Policyholders

2000 WAS VERY SUCCESSFUL FOR CANADA LIFE. We completed our first full year as a public company since demutualizing in November 1999 and delivered on our financial and operational commitments: to keep growing efficiently and profitably, creating value for our shareholders and satisfying the needs of our customers.

Financial Highlights

Canada Life made strong gains in financial performance as measured by return on shareholders' equity, at 13 per cent by year-end; premium revenue, at $8.4 billion; shareholders' net income, at $385 million; earnings per share, at $2.40; and assets under administration, at $63.1 billion.

Total return on our share price was 90 per cent for the year and 128 per cent since we demutualized, significantly outperforming the Toronto Stock Exchange, which registered a 27 per cent increase over the same 14-month period.

Our target as we demutualized was to achieve a return on shareholders' equity of 13 to 14 per cent by year-end 2001. We reached 13 per cent in 2000 and aim to continue driving this return upward. We have realized a 17 per cent compound annual growth in revenues and 15 per cent compound annual growth in earnings for the past five years. Our goal is to keep building through organic growth, supplemented by strategic acquisitions, joint ventures and networking arrangements. In the past eight years, we have completed 13 acquisitions and have the financial and human capacity to keep expanding the business in our chosen markets.

Operational Highlights

As I reported last year, our strategy focuses on meeting the protection and wealth management needs of our customers, providing quality service through multiple distribution channels suitable for each market, developing new products and services, and continuing to invest in technology and people.

2000 was a year of progress for all parts of our organization, as we continued to execute our strategy. We sharpened our focus on core protection and wealth management businesses, expanded in existing markets, exited non-core operations, and entered into new territories.

In Canada, we purchased the group retirement business of TD Bank Financial Group, which grew our total managed group savings assets to more than $10 billion and made us a leader in the group savings market. In a complementary transaction, we sold the Canada Life Casualty Insurance Company, a profitable non-core enterprise, to Meloche Monnex, TD's property and casualty subsidiary. We acquired the Canadian payout annuity business of Confederation Life Insurance Company in liquidation, which broadened our annuity business base by 20 per cent with about $717 million in assets and moved us to the top tier of providers in the payout annuity market.

The Crown Life operations that we acquired in 1999 were successfully integrated, establishing our presence in the direct life reinsurance market worldwide and adding to our international presence in the Caribbean and Hong Kong.

In the Republic of Ireland, we continued to strengthen our investment fund business through Setanta Asset Management. Investment sales grew by 80 per cent over 1999 to more than half a billion dollars. Our flagship pension fund rose to first place among 17 funds, and our unit-linked Focus 15 fund was named the top investment product of 2000.

In the United States, we reinforced our prospects in group insurance, doubling the sales force to almost 100 representatives in 27 sales offices across the country. We entered the growing variable universal life insurance market, securing licenses in 45 states and 400 broker/dealer arrangements within four months.

Canada Life International, a subsidiary of our United Kingdom Division, continued to grow our Isle of Man operation, which saw market share increase sevenfold between 1998 and 2000. This self-contained offshore enterprise is now one of the top five offshore financial services providers in the U.K. market.

We entered Germany, the world's third largest economy with established marketing approaches and market segments in which we have particular expertise – brokerage distribution, unit-linked pension plans and disability benefit products. In late summer, after less than two months in that market, we received special recognition for our "essential abilities" (disability income) protection product, cited the top life insurance product for 2000. By year-end, we had about 200 broker contracts in place, bringing visibility for Canada Life and increasing our sales momentum.

We augmented both capital and human resources in Brazil, another important growth opportunity and investment for our future. Brazil is a developing market for private wealth management, where we are targeting the employee benefit/group segment. In 2000, through our subsidiary Canada Life Pactual, we increased our joint venture stake with Banco Pactual

from 70 per cent to 90 per cent. We have established many brokerage relationships, greatly enhancing our distribution potential across Brazil through our sales and marketing teams in Rio de Janeiro and São Paulo.

We began trading on the New York Stock Exchange. This listing raises Canada Life's profile, provides access to the largest capital pool in the world, and enhances our acquisition currency in markets where we see growth opportunities.

We were added to the TSE 300 and TSE 100 indices and the S&P/TSE Canadian Mid-Cap index, which also helps to raise our share profile and to increase demand for our securities.

Building for the Future

We are fully aware of the external forces that shape our operating landscape, where change is often difficult to predict and to control – globalization, consolidation, demographics, technology, economic forces, legislation and regulation.

In Canada, the much anticipated financial services legislation, which was expected to be effective in 2000 but was delayed by a federal election, will probably be passed in the first half of 2001. I believe this legislation will be good for our industry and for Canada Life shareholders and policyholders. It is a very timely initiative that will modernize Canada's increasingly outdated financial services legislative framework and provide Canadian-based insurance companies with additional flexibility to compete domestically and abroad. In particular, we will be eligible to participate in the payments system, making customers' relations with us more convenient. It will improve customer protection and create certainty and clarity with respect to the rules of engagement for all financial services competitors.

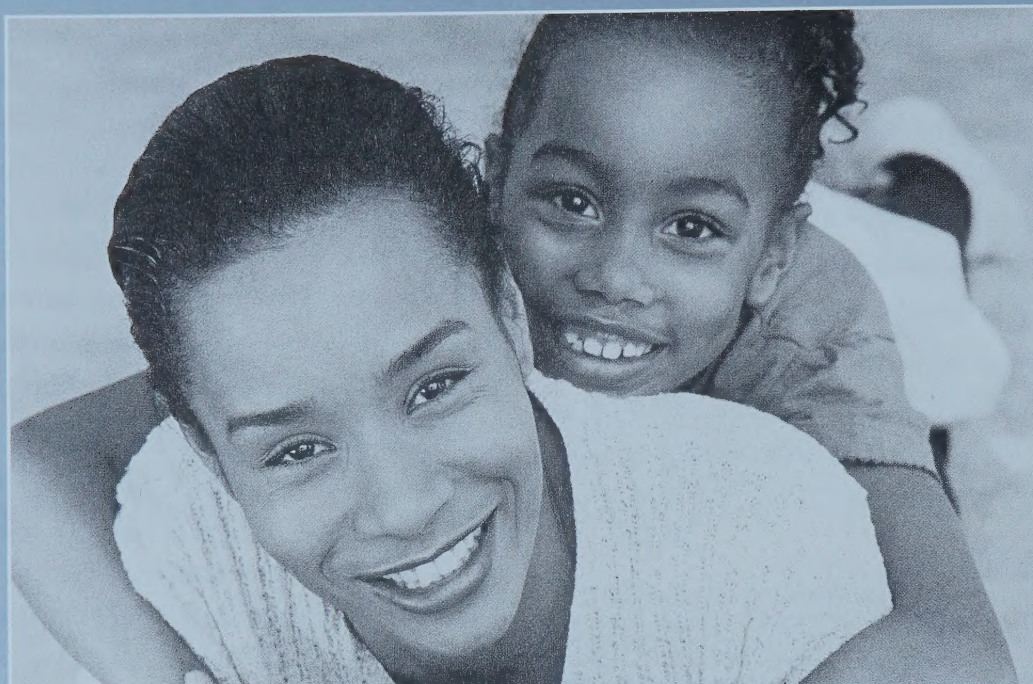
We intend to keep growing efficiently and profitably, creating value for our shareholders and satisfying the needs of our customers by focusing on the right businesses for us and running those businesses well; by retaining and attracting the best people and providing them with the tools and development to do their jobs; by paying attention to local market characteristics while managing globally through a cohesive management team; and by dedicating ourselves to excellent execution in all areas and particularly in customer service.

I want to thank our Board of Directors, management and staff, sales associates and business partners for their hard work and support that are a continuing source of Canada Life's success. Their concerted efforts, know-how and drive have positioned Canada Life well for the future.

Da Nield

David A. Nield

Chairman, President and Chief Executive Officer



Our Objectives and How We're Performing

EMPHASIZE FINANCIAL PERFORMANCE

Return on shareholders' equity at 13% in 2000

Double digit growth in earnings per share

Double digit growth in premium and net income

Asset growth

Investment yield improvement

Reduced cost of financing

INCREASE WEALTH MANAGEMENT FOCUS

Acquisition of TD Bank Financial Group group savings business (Canada)

Acquisition of Confederation Life payout annuity business (Canada)

Setanta Asset Management growth (Ireland)

Unique new products (Focus 15, Ireland; Annuity Growth Account, United Kingdom)

Development of joint venture (Brazil)

Expansion of Isle of Man operation

LEVERAGE CORE PROTECTION

New variable universal life product (United States)

Group creditor insurance growth (Canada)

Product innovation (Germany)

Life reinsurance growth (United States)

Term insurance growth (Canada)

Canada Life Delivers on its Commitments

FOR 153 YEARS, CANADA LIFE has delivered on its commitments. In 2000, our first full year as a public company since demutualizing in 1999, we made a number of commitments – to our shareholders, policyholders and staff – to create shareholder value, to build on our history of providing exceptional products and services to our customers, and to develop an entrepreneurial organization. We have delivered on all counts and have exceeded expectations in many areas.

Here is a snapshot of what we said we would do, what we did in 2000 and are continuing to do into 2001 and beyond, and how we are doing it – all in the context of our overall corporate goal to achieve and to maintain profitable growth as a high performance, diversified international life insurance and financial services company.

PURSUE VALUE-ENHANCING ACQUISITIONS

TD Bank Financial Group group savings business (Canada)

Confederation Life payout annuity business (Canada)

Crown Life integration

ENHANCE CAPITAL MANAGEMENT

Sale of Canada Life Casualty Insurance Company

Sale of Sherway Gardens Shopping Centre (Canada)

New York Stock Exchange listing; Toronto Stock Exchange (TSE) 300 and TSE 100 indices, S&P/TSE Canadian Mid-Cap index

Capital utilization changes

EXPAND DISTRIBUTION CAPABILITY

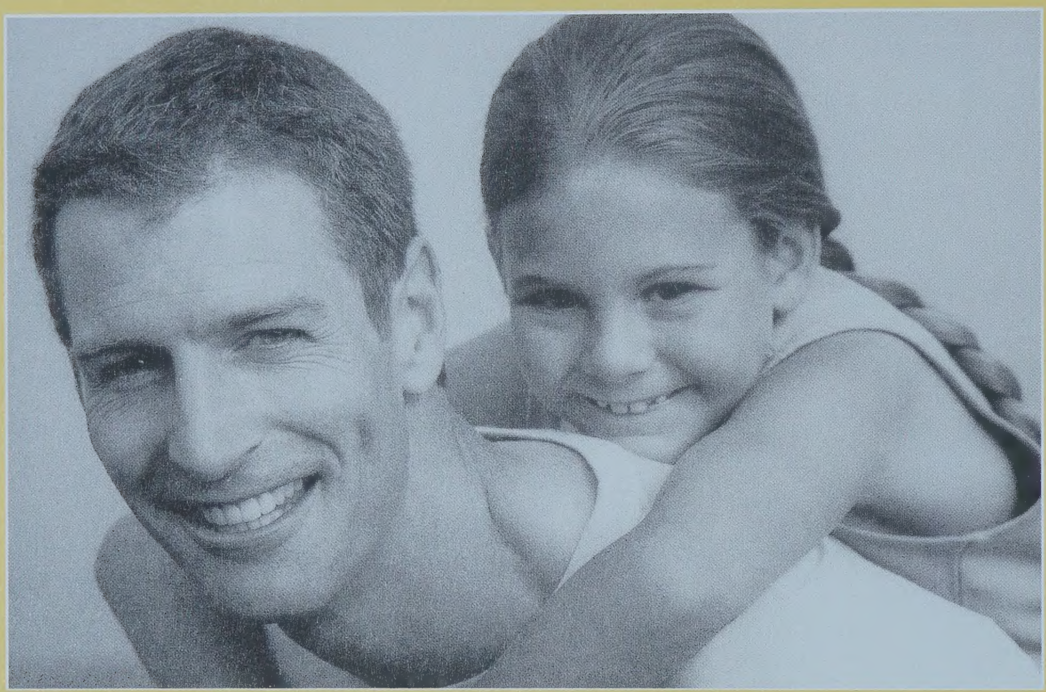
National expansion of group sales offices (United States)

Independent Financial Advisors (United Kingdom)

Online, real time customer access through kanetix.com (Canada)

200 broker contracts, web site links (Germany)

42 sales representatives, brokerage relationships (Brazil)



Financial Performance

Wealth Management

Protection

EMPHASIZE OUR FINANCIAL PERFORMANCE

❖ Return on shareholders' equity increased steadily, to 13 per cent by year-end 2000, within our 13 to 14 per cent target for 2001.

❖ Earnings per share grew 20 per cent over 1999, exceeding our goal of low teen-digit growth.

❖ Shareholders' net income showed strong growth, reaching $385 million for the year.

❖ Total premium income grew 11 per cent to more than $8 billion.

❖ Assets under administration surpassed $63 billion at year-end 2000. Growth in 2000 was consistent with the 13 per cent gain year-over-year throughout the 1990s.

❖ The successful Yield Enhancement Program, begun in 1999 and expanded further in 2000, has provided a strong base for continued improvement in investment returns.

❖ The reorganization of our subsidiaries as part of demutualization has lowered the annual after-tax cost of financing by $15 million.

INCREASE OUR WEALTH MANAGEMENT FOCUS

❖ On December 31, 2000, we purchased the group savings business of TD Bank Financial Group. The transaction brought our total group savings assets under administration to more than $10 billion, reinforcing our market position.

❖ On August 1, 2000, we acquired the Canadian payout annuity business of the former Confederation Life. This purchase, with assets of $717 million, increased our annuity business base by 20 per cent and strengthened our market position.

❖ We continued to grow Setanta Asset Management, a wholly owned subsidiary that is part of our Irish Division. Setanta's focus is on all aspects of wealth management. In 2000, Setanta helped to increase investment fund management sales to more than $500 million. It launched Focus 15, an innovative unit-linked savings product, to media and market acclaim.

❖ In June 2000, our U.K. Division launched the Annuity Growth Account, a single premium, unit-linked product featuring an investment element and a flexible renewal provision. It's one of several initiatives helping the Division to expand its wealth management business. The wealth management business is growing rapidly and now represents more than 80 per cent of the Division's total revenue.

❖ Through our subsidiary Canada Life Pactual in Brazil, we increased our joint venture stake from 70 to 90 per cent with Banco Pactual, one of Brazil's top investment managers. We are targeting the employee benefit/group market. Our wealth management prospects are strong given the country's large population of 170 million, a growing middle class and a continual shift away from social assistance programs.

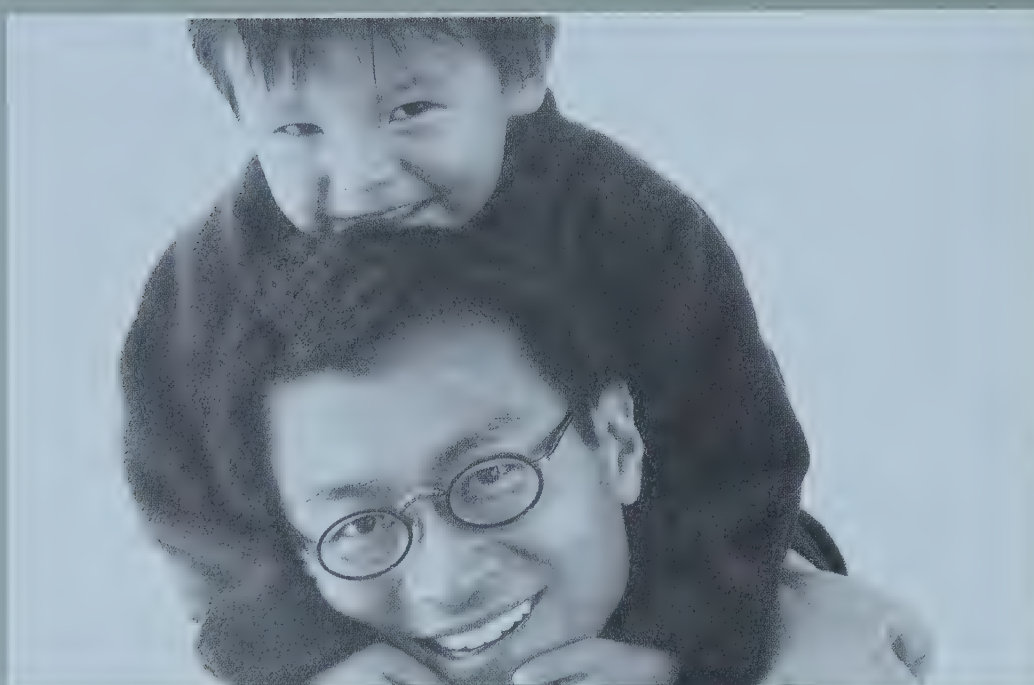
❖ Our Isle of Man operation, focused on the high net worth investor, increased market share from one per cent in 1998 to more than seven per cent in 2000. It's now one of the top five providers of offshore solutions to U.K. residents and expatriates of many different nationalities. We are transporting its successful formula to the U.K. mainland in 2001, upgrading product design, expanding our existing in-house fund management operation and developing relationships with other third party fund management houses.

LEVERAGE OUR STRONG POSITION IN CORE PROTECTION MARKETS

❖ We have entered the rapidly growing variable universal life (VUL) insurance market in the United States with The Prestige Series VUL product, which combines death benefit insurance protection with a separate investment account. Prestige is designed for middle- and upper-income clients and is marketed through medium-sized independent broker/dealers. Within the first four months in the market, we had more than 400 broker/dealer selling arrangements in place in 45 states.

❖ We strengthened our position as the number one group creditor insurance underwriter in Canada. In July 2000, we entered into a contract with a major Canadian bank, increasing our group creditor portfolio by 25 per cent and raising annual gross premium revenue by more than $100 million. Effective November 2000, we began offering credit card balance protection to another major Canadian bank's Visa cardholders.

❖ On July 24, 2000, we began operations in Cologne, Germany through Canada Life Europe Ltd., a subsidiary of our Irish Division, marking our first venture in



continental Europe. Within two months of operation, the "essential abilities" plan, a new type of disability product, received top honours from a leading investor journal, "Capital", for its creative approach to disability coverage and clear policy conditions. The market segments in which we have expertise, unit-linked and disability benefits, as well as brokerage distribution, are growing vigorously. We look forward to continued progress in the world's third largest economy.

❖ Our Reinsurance operations, acquired from Crown Life in 1999, significantly increased direct life reinsurance business in 2000. We are now a recognized market participant, with a top 20 ranking and a greater than two per cent market share of new business in the United States.

❖ In Canada, new individual life insurance sales grew sharply, led by term insurance. With a 133 per cent increase to almost $23 million in new annual premium sales in 2000 over 1999, we are now a market leader.

PURSUE VALUE-ENHANCING ACQUISITIONS

❖ We continue to step up our proven acquisition and integration capability – 13 acquisitions in eight years. In every acquisition that we pursue, our objectives are to increase return on equity and distribution capacity and/or market share and to reduce in-force unit costs, thereby adding to shareholder value.

❖ Two significant transactions in 2000 included the purchases of group savings business (TD Bank Financial Group) and payout annuity business (Confederation Life in liquidation).

❖ The Crown Life acquisition, initiated in 1999, was substantially integrated by year-end 2000.

ENHANCE CAPITAL MANAGEMENT

❖ In October 2000, we sold our 100 per cent interest in Sherway Gardens Shopping Centre, a large retail complex in Toronto, Canada. The transaction is part of our ongoing strategy to reduce real estate investments for greater liquidity and to re-balance our overall investment portfolio.

❖ At year-end 2000, we sold the Canada Life Casualty Insurance Company. The deal unlocked capital and fits our strategy to strengthen our focus on core businesses.

❖ In September 2000, we listed on the New York Stock Exchange. This listing expands our opportunities to access capital in the world's biggest capital market. Earlier in the year, we were added to the Toronto Stock Exchange (TSE) 300 and TSE 100 indices, and the S&P/TSE Canadian Mid-Cap index, further raising our profile in capital markets.

❖ In 2000, we shifted our approach to managing return on capital by moving accountability for excess capital from our operating Divisions to the corporate centre.

EXPAND OUR DISTRIBUTION CAPABILITY

❖ In the United States, group insurance marketing and service capability increased, resulting in 10 new sales offices in major cities for a total of 27 offices from coast to coast. The expansion doubled our sales force to 97 representatives and reinforces our goal to achieve a top 10 marketplace ranking.

❖ In the United Kingdom, the Independent Financial Advisor (IFA) channel grew to 69 broker sales consultants, and new business through IFAs was up almost 29 per cent in 2000 over 1999. We are developing new relationships with key IFAs nationwide, which will drive our offshore and onshore investment business forward.

❖ kanetix.com, Canada's first full service online marketplace for life, auto and home insurance, has continued to grow with new service providers coming on board and has positioned itself strategically with two leading Internet portals in Canada, attracting a significant number of new customers to the site. Established in 1999 and operating through Kanetix Ltd., our e-commerce subsidiary, kanetix.com is a prime example of our commitment to giving customers choice in product delivery.

❖ In Germany, by year-end 2000, within six months of commencing operations, we had 200 broker contracts in place and were quoted on numerous independent web sites. We are continuing discussions with key broker networks.

❖ In Brazil, at year-end 2000, we had 42 sales representatives between Rio de Janeiro and São Paulo, and this network continues to expand.

How Are We Meeting These Commitments?

Giving the Right People the Right Tools

OUR GOAL IS TO ENSURE we have the right people in the right place at the right time, and that they have the right tools to execute with excellence in meeting the financial services needs of our customers and creating value for our shareholders.

We "act locally, manage globally". We have a strong, cohesive management team based in each of our operating Divisions (Canada, United States, United Kingdom, Ireland, and International and Reinsurance), running strong businesses that are able to compete with the best companies in their respective markets. Team members work collaboratively, following common corporate objectives with locally tailored market strategies. They represent a broad mix of Canada Life, industry and public company experience, including an extensive track record and skill set in acquisitions and integration.

❖ We promote and create a high performance environment where people are motivated and are consistently performing at their best. We have linked compensation to the Company's performance through incentive compensation and a stock option plan. We rotate managers to different jobs throughout the organization to broaden their experience and to bring fresh views to business issues – such as marketing, underwriting, claims, customer service, financial management, investor relations and technology.

❖ We are constantly focused on delivering value to our customers through our products and services. We continue to improve business processes company wide to get closer to our customers and to meet their needs easily and cost efficiently. In Canada, we have established a Quality Service Office to lead the initiative, and its size and scope increased significantly in 2000. Senior managers from our Divisions have now undergone rigorous training to learn standard process improvement techniques and management principles.

❖ We are serious about information technology. In 2000, about 900 specialists were involved in more than 300 initiatives company wide, including 55 e-business projects. Our focus going forward continues to be e-business, completing conversion of "legacy" systems, and investing in new technologies. This allows us to be more flexible and innovative in our products and services, and more competitive as unit operating costs are reduced. Our objective ultimately is to increase our ability to provide customized, speedy and secure service to policyholders, group plan sponsors and distributors.

❖ We have a strong system of corporate governance, overseen by an active Board of Directors and anchored by extensive internal controls. All staff as well as Directors are bound by a broad-based Code of Business Conduct, which values honesty and integrity as fundamental to our business goals and execution.

Management's Discussion and Analysis

CONTENTS

A NOTE ABOUT FORWARD-LOOKING STATEMENTS.

This section of the annual report may contain forward-looking statements about the operations and objectives of the Company. Refer to page 1 for details.

THIS SECTION OF THE ANNUAL REPORT provides management with the opportunity to discuss the financial performance and condition of Canada Life Financial Corporation ("the Company") for the year ended December 31, 2000 and to give some general indication of the Company's expectations for future performance. Performance is reviewed both in total and for each of the primary business segments by which the Company is managed.

This section also describes the policies and procedures used for managing the risks related to Company activities. The Company must comply with the legal and regulatory requirements in all of the countries in which it operates. The principal regulator is the Office of the Superintendent of Financial Institutions, Canada. As a publicly listed company in Canada and the United States, it must also comply with the requirements of securities regulators and stock exchanges in each of those countries. The Company's Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) and, as a requirement of listing on the New York Stock Exchange in 2000, a reconciliation of certain Canadian GAAP financial information to U.S. GAAP has been prepared and is included in note 20 to the Consolidated Financial Statements. The Company manages its operations based on Canadian GAAP and the discussion and analysis contained in this section is based on Canadian GAAP.

Financial Overview

As at and for the year ended December 31 *(in millions of Canadian dollars except per share amounts)*	2000	1999	% Change
PERFORMANCE MEASURES			
Shareholders' net income[1]	$ 385	$ 321	20
Earnings per share[1]	2.40	2.00	20
Earnings per share excluding goodwill expense[1]	2.55	2.24	14
Book value per share[1]	19.37	17.64	10
Return on shareholders' equity	13.0%	11.6%	
MCCSR ratio[2]	206%	190%	
PREMIUM REVENUE			
General fund	$ 4,676	$ 4,821	(3)
Segregated funds	3,692	2,737	35
	$ 8,368	$ 7,558	11
ASSETS UNDER ADMINISTRATION			
General fund	$ 32,712	$ 30,728	6
Segregated funds	22,383	21,875	2
	55,095	52,603	5
Other assets[3]	7,986	2,526	216
	$ 63,081	$ 55,129	14
LIFE INSURANCE IN FORCE	$ 413,594	$ 370,308	12

The Company demutualized on November 4, 1999. The 1999 shareholders' net income, per share amounts and return on shareholders' equity have been prepared on a pro forma basis assuming the Company was public and all shares issued in 1999 were outstanding on January 1, 1999.

Minimum Continuing Capital and Surplus Requirements (MCCSR) is calculated in accordance with capital standards set by the Company's primary regulator, the Office of the Superintendent of Financial Institutions, Canada.

Other assets administered by the Company on behalf of third parties are not included in general or segregated funds of the Company.

MEASURES OF FINANCIAL PERFORMANCE

2000 was our first full year as a public company following demutualization on November 4, 1999. It was also a year in which the integration of the business acquired from Crown Life and a reorganization of our operations in the United Kingdom, both initiated in 1999, were completed. As new initiatives in 2000, we acquired the group savings business of TD Bank Financial Group and a large block of payout annuity business from the windup of Confederation Life Insurance Company and sold Canada Life Casualty Insurance Company, our general insurance subsidiary, all part of the operations of our Canadian Division. As a relatively new public company, and a company with a history of acquisitions, we are committed to continuously developing and refining our measures of value creation for shareholders, operational performance and financial soundness. We performed well this year against our key measures of financial performance and in comparison to the prior year.

Shareholders' net income for the year was $385 million, up $64 million or 20% over a comparatively stated 1999.* One-time benefits to net income this year included an after-tax gain of $18 million on the sale of our general insurance subsidiary and the after-tax impact of $30 million arising from the reduction of actuarial liabilities due to the impact of improvements in our asset and liability matching program. These benefits were offset by one-time charges against net income of $16 million for a reserve for

* *The Company demutualized on November 4, 1999. The 1999 shareholders' net income has been restated and the per share amounts and return on shareholders' equity have been prepared on a pro forma basis. This basis assumes the entire $249 million pre-demutualization net income for 1999 was attributable to the shareholders and that the Company was public and all shares issued in 1999 were outstanding on January 1, 1999. All 1999 comparative references throughout this discussion and analysis section are stated on this basis.*

integration expenses associated with the growth of our wealth management business and $31 million for the impact of income tax rate changes in Canada on cumulative future tax assets. The benefits of revenue growth, integration of past acquisitions, our investment yield enhancement program and generally favourable mortality experience were strong contributors to the growth in ongoing net income for 2000 and more than offset the negative impact on net income of the strengthening Canadian dollar against the British and Irish pounds.

Earnings per share for 2000 was $2.40, up 20% from $2.00 in 1999. Excluding goodwill expense, earnings per share was $2.55 compared to $2.24 in 1999.

Return on shareholders' equity for 2000 reached 13% compared to 11.6% in 1999 and is within the target we set at the time of demutualization of meeting a range of 13% to 14% by the end of 2001.

Premium revenue for general fund and segregated funds combined, increased to $8.4 billion, up 11% from 1999. Customer preference and equity market performance drove strong growth in sales of segregated funds products and a shift away from certain general fund products resulting in a slight decline in general fund premiums.

Assets under administration increased by 14% over 1999 to $63.1 billion, as a result of the Canadian group savings and payout annuity business acquisitions and business growth.

Our capital base grew as a result of increased retained earnings. The capital adequacy ratio used for regulatory purposes (MCCSR) rose to a very strong 206% up from 190% at the end of the prior year. Growth in capital, as well as a focus on capital management, has resulted in a capital ratio well in excess of the regulatory minimum.

FACTORS AFFECTING PERFORMANCE AND MEASUREMENT

There are many factors to consider in the measurement of company performance today and into the future. We offer a large number of products to consumers in various countries. Sources of revenue growth, the impact of foreign currency fluctuations, the emergence of profit under actuarial methods using Canadian GAAP and in the future, the use of Embedded Value, are important considerations in viewing Company performance.

PRODUCTS AND BUSINESS GROWTH

Top line revenue growth as reflected by premium growth for general fund and segregated funds products combined, and growth in assets under administration for all categories of products, are important measures of performance.

We generate income for our shareholders by selling products that are priced to generate reasonable return on capital employed within acceptable risk limits. Volume growth and source of income measures are impacted by the fact that products are categorized differently for financial reporting purposes depending on the design of the product and are either part of general or segregated funds of the Company, or are off-balance sheet assets under administration. Notwithstanding the differences in financial reporting, products across all categories are often alternatives offered by the Company to the same potential customers through the same distribution channels. Our relative mix of product sales will vary depending on both internal objectives, such as capital utilization, and external market factors affecting customer preference, such as interest rates and equity market performance.

The financial risks associated with general fund products are primarily borne by the Company. Premiums received and investment income earned on supporting assets less policyholder benefits are reflected in the general fund of the Company. Products that are sold on a participating basis are maintained in separately identified accounts within the general fund.

Segregated funds products are supported by assets that are separate from, and not available to satisfy the liabilities of, the general fund. Segregated funds premiums, investment income and payments to policyholders (subject to the possible effect of any guarantees) are not reported in the income statement for the general fund. The fee income, less expenses, that we earn for managing segregated funds assets is included in the income statement of the general fund. Unit-linked products sold in the United Kingdom and the Republic of Ireland, as well as separate account products sold in the United States, are included under the definition of segregated funds.

With the acquisition this year of a sizeable block of business that the Company administers on behalf of customers but is not part of the general or segregated funds, the level of off-balance sheet assets under administration has grown considerably and includes among other things, defined contribution pension plans, group registered savings plans, profit sharing plans and stock plans. The Company earns fee income for managing this business. This fee income and associated expenses are included in the income statement of the general fund.

Product information is aggregated in various ways throughout this section to explain sources of growth in revenues and assets and the associated sources of income for the Company.

IMPACT OF FOREIGN CURRENCY FLUCTUATIONS

Financial information is prepared on a local currency basis using Canadian GAAP and is then translated into Canadian dollars for reporting purposes. As a multinational company with significant self-sustaining operations outside of Canada, financial information is impacted by fluctuations in foreign currencies against the Canadian dollar. In 2000, the Canadian dollar strengthened significantly against the British pound and the Irish pound (Euro), two of the currencies in which we operate. This strengthening has negatively impacted certain performance measures including reported net income and asset growth rates for our operations in the United Kingdom and the Republic of Ireland relative to 1999. The growth rate for U.S. dollar denominated assets has been favourably impacted by currency movements.

Gains and losses arising as a result of financial statement currency translation are unrealized. The effects of forward foreign exchange agreements which are used to hedge the exposure of the Company's investments in foreign operations are recorded as a direct adjustment to the Company's Currency Translation Account (CTA), a component of equity.

The impact of the changes in currency rates in 2000 relative to 1999 on certain selected financial information is set out in the following table:

IMPACT OF FOREIGN CURRENCY FLUCTUATIONS 2000 vs 1999

	% Change in average currency rate	% Change in year-end currency rate	Increase (decrease) *(in millions of Canadian dollars)*					
			Premium revenue			Shareholders' net income	General and segregated funds assets	Shareholders' equity (CTA)
			General fund	Segregated funds	Total			
British pound	(6.3)%	(3.9)%	$ (64)	$ (84)	$ (148)	$ (10)	$ (718)	$ (52)
Irish pound*	(13.4)%	(2.7)%	(53)	(63)	(116)	(6)	(92)	(10)
U.S. dollar	–	4.2%	–	–	–	–	463	32
Total			$ (117)	$ (147)	$ (264)	$ (16)	$ (347)	$ (30)

**The Irish pound is a denomination of the Euro and the exchange rate is fixed at 0.787564 Irish pound to the Euro. In general, the Irish economy continues to use the denomination of the Irish pound and to reflect current local practice, the comments in this Management's Discussion and Analysis make reference to the Irish pound rather than the Euro.*

SOURCES OF NET INCOME

Net income is calculated after product-based revenues, investment income and associated expenses are accrued, and the provisions necessary to meet all policy-related obligations with respect to business-in-force are determined. The change in actuarial liabilities year-over-year is an important component of net income. Actuarial liabilities are calculated with reference to both business volume and underlying experience assumptions. As well, the actuarial liabilities are impacted by revised assumptions and are subject to calculation refinements. The Company generates a significant amount of its income from renewal business which was up in 2000 relative to 1999. As well, volume growth and equity market performance have contributed to increased income from our segregated funds and the effects of a bond yield enhancement program have made a positive contribution to net income. The impact of higher new business volumes in life insurance has increased new business strain slightly from 1999, resulting in a larger charge to overall net income. Interest income on capital declined slightly over 1999. Basis changes resulted in some strengthening of actuarial liabilities as a result of updated estimates for morbidity offset by releases for favourable mortality. However, relative to 1999, basis changes in the calculation of actuarial liabilities had a one-time favourable impact on net income as a result of the benefit of past acquisitions improving the asset and liability matching positions. This, coupled with a one-time gain on the sale of the general insurance subsidiary less the one-time, negative impacts of a reserve for integration expenses and the impact of tax changes, eliminated the overall impact of non-recurring factors on net income in 2000. Year-over-year performance and growth are comparable on a sustainable basis excluding these non-recurring factors.

EMBEDDED VALUE

Embedded Value is an industry term that is defined to represent a view of the economic net worth of a company in the life insurance business. It consists of the present value of future net income after-tax that is projected to be generated from the current in-force business and distributable to shareholders, plus the market value of shareholders' equity, but excludes any value that may be attributed to future new business. This varies from the book value of the Company which is calculated in accordance with Canadian GAAP and includes conservative provisions for adverse situations.

Life insurance companies, particularly in the United Kingdom and Europe, have reported Embedded Value figures for several years and financial statement users have found this reporting to be useful in comparison to reported company book values as an indication of company value. Value calculated on an Embedded Value basis has generally exceeded book value. It has also been an effective method of comparing companies with different product mixes and across various territories.

In Canada, Embedded Value reporting has seen very limited application to date. In August 2000, the Canadian Institute of Actuaries released a draft paper titled "Considerations in the Determination of Embedded Value for Public Disclosure in Canada". This is the first guidance for the development of Embedded Value information in the Canadian insurance environment.

We are currently evaluating the principles for calculating Embedded Value for the Company and developing the calculation methodology and processes necessary for reporting Embedded Value information. Consistency in the application of principles both internally and with peer companies will be important. We are committed to providing further information with respect to Embedded Value as a measure of performance and value for disclosure in 2001.

Income Statement Review

SUMMARY STATEMENT OF NET INCOME

(in millions of Canadian dollars)	2000	1999
REVENUES		
Premium income	$ 4,676	$ 4,821
Net investment income	2,306	2,321
Fee and other income	484	393
	7,466	7,535
EXPENDITURES		
Policyholder benefits	5,596	5,883
Other expenses	1,278	1,204
	6,874	7,087
Net income before income taxes	592	448
Income taxes	211	128
Net income	381	320
Participating policyholders' net loss	(4)	(1)
Shareholders' net income	$ 385	$ 321

Highlights of the summary statement of net income as well as explanations of significant year-over-year fluctuations follow.

REVENUES

PREMIUMS

(in millions of Canadian dollars)	2000	1999	% Change
Participating insurance and annuities	$ 786	$ 831	(5)
Non-participating:			
Annuities	1,548	1,769	(12)
Individual life and health insurance	674	625	8
Group life and health insurance	1,391	1,277	9
Reinsurance	153	202	(24)
General insurance	124	117	6
General fund premium income	4,676	4,821	(3)
Segregated funds premiums	3,692	2,737	35
Total	$ 8,368	$ 7,558	11

Total general fund and segregated funds premiums increased to $8,368 million, up $810 million or 11% over 1999. General fund premium income decreased by $145 million or 3% from 1999. This decrease was primarily the result of our de-emphasis of the sale of participating life insurance products; a reduction in annuity premium income which reflects a consumer shift away from fixed rate products; a drop in reinsurance premium income as a result of exiting the U.S. medical accident and health reinsurance business, and the impact of foreign currency translation. These decreases were partially offset by group annuity growth from guaranteed investment contracts (GIC) sales in the United States, an increase in term insurance sales in Canada, and higher group life and health sales across the operating divisions.

Segregated funds premiums increased by $955 million or 35% over 1999, more than offsetting the declines in the general fund and the impact of foreign currency translation. The significant growth in Canada, the United Kingdom and the Republic of Ireland was the result of continuing consumer preference for equity-based rather than fixed income products. These premiums are included for volume reference only and are not included directly as premiums in the statement of net income.

NET INVESTMENT INCOME

(in millions of Canadian dollars)	**2000**	1999	% Change
Bonds[1]	**$ 1,279**	$ 1,232	4
Mortgages[1]	**614**	597	3
Common and preferred stocks[2]	**203**	238	(15)
Real estate[2]	**80**	103	(22)
Policy loans	**70**	76	(8)
Cash and cash equivalents, and short-term investments	**83**	70	19
Other	**23**	55	(58)
Total investment income	**2,352**	2,371	(1)
Less: investment expenses	**46**	50	(8)
Net investment income	**$ 2,306**	$ 2,321	(1)

[1] *Includes amortized realized gains as follows: bonds $74 million ($101 million in 1999); mortgages $10 million ($10 million in 1999).*

[2] *Includes amortized realized and unrealized gains as follows: common and preferred stocks $153 million ($178 million in 1999); and real estate $20 million ($20 million in 1999).*

Net investment income of $2,306 million decreased marginally from $2,321 million in 1999. The strengthening of the Canadian dollar against the British and Irish pounds and the Euro had a $37 million negative impact on net investment income in year-over-year comparison. Currency fluctuations year-over-year do not generally impact the earned rate. The favourable impact of yield enhancement has been offset by declines in the portfolio interest rates and the impact of stock market volatility to reduce the overall rate of investment income earned on general fund invested assets to 8.4%, down from 8.6% in 1999 on a comparable basis.*

Investment income from bonds rose to $1,279 million, up 4% over 1999. More funds were invested in bonds and at higher rates as a result of our yield enhancement strategies. The yield enhancement strategies added over $30 million to investment income in 2000, offsetting some of the negative impact of currency fluctuation and the drop of $27 million in amortization of deferred realized gains.

Investment income from common and preferred stocks of $203 million dropped by $35 million from 1999 as a result of less favourable performance in worldwide equity markets. Amortization of net realized and unrealized gains decreased to $153 million in 2000, down $25 million from 1999. In 2000, most of the markets in the countries in which we operate had mixed results and year-over-year growth in indices were either significantly lower or negative. The TSE 300 Index in Canada achieved a 6.2% increase in 2000, a substantial drop from the previous year's increase of 29.7%. The U.S. Standard and Poor's 500 Index dropped 10.1% against a 19.5% increase in 1999. The U.K. FTSE 100 had losses of 10.2% in 2000 versus a 17.8% increase in the previous year. The Irish ISEQ increased 14% in 2000 against a 0.4% rise in 1999.

Income from real estate is steadily decreasing as a result of our continuing strategy of reducing real estate investments. Income from real estate fell over 1999, as a result of prior year disposals. As well, income was impacted by a drop in rental income as a result of the sale of Sherway Gardens Shopping Centre, a large retail complex in Toronto, Canada this year.

* *In 2000 there was a change in the method of calculating the earned rate and the 1999 calculation was restated. Deferred gains are now deducted from, and accrued interest added to, the invested asset carrying values. These changes resulted in a higher earned rate on a comparable basis than the former method.*

FEE AND OTHER INCOME

Fee and other income increased to $484 million, up $91 million or 23% over 1999 reflecting the benefit of the strong growth in segregated funds premiums and assets in Canada, the United Kingdom and the Republic of Ireland. Fee income is derived mainly from the management of segregated funds assets. These fees are generally based on a percentage of the market values of the assets under administration. The Company also earns fee income from the administration of unit trusts in the United Kingdom, from investment management services provided by several subsidiary companies and from administrative services (such as claims administration) provided to employer and other groups. The acquisition of the new group savings business on December 31 of this year will result in the growth of fee based income in future years.

Included in other income in 2000 is a gain on the sale of our subsidiary Canada Life Casualty Insurance Company.

POLICYHOLDER BENEFITS

(in millions of Canadian dollars)	2000	1999	% Change
Life, health and general benefits	$ **1,670**	$ 1,560	7
Annuity payments	**1,128**	1,032	9
Maturities, surrender payments and other	**1,837**	1,872	(2)
Participating policyholder dividends	**289**	286	1
Payments to policyholders and beneficiaries	**4,924**	4,750	4
Increase in actuarial liabilities	**672**	1,133	(41)
Policyholder benefits	$ **5,596**	$ 5,883	(5)

PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES

Payments to policyholders and beneficiaries represent amounts paid out in respect of, among other things, life, health and general insurance benefits; annuity payments; maturities and surrender payments; and policyholder dividends on participating policies. When the Company makes payments to policyholders and beneficiaries, the amount of any related actuarial liability is reduced, producing an offset in total policyholder benefits in the statement of net income. However, there will be circumstances where payments made are not exactly offset by a reduction in actuarial liabilities.

Payments to policyholders and beneficiaries rose by $174 million or 4% over 1999. Claim payments increased overall as a result of increased payments for group and individual annuity business in Canada, higher individual insurance claims in Canada and the United Kingdom, and a drop in reinsurance recoveries in the United States. These increases were partially offset by a lower level of lapses in the Republic of Ireland and the reduction in accident and health reinsurance business.

INCREASE IN ACTUARIAL LIABILITIES

The increase in actuarial liabilities represents the net change during the period in the amount of actuarial liabilities, which is included in the determination of net income. Changes in actuarial liabilities from year to year are a function of business volumes, underlying experience factors, changes in assumptions and refinements in the calculation of these liabilities.

The increase in actuarial liabilities of $672 million was $461 million lower than the increase in actuarial liabilities in 1999. $710 million of this year's increase relates to new and existing business. This amount is $382 million less than last year as a result of the increased claim and annuity payments referred to above, coupled with a reduction in annuity premiums. There has been a $38 million decrease in actuarial liabilities as a result of revised assumptions and calculation refinements including the reduction for Canadian annuity interest rate margins referred to earlier and several other lesser factors. This compares with a net strengthening of $41 million in 1999 for revised assumptions and calculation refinements, which was principally for business in the United Kingdom. Further information regarding the changes in actuarial liabilities is provided in note 7(a) of the Consolidated Financial Statements.

OTHER EXPENSES

(in millions of Canadian dollars)	**2000**	1999	% Change
Commissions	**$ 341**	$ 344	(1)
General and other expenses	**913**	822	11
Goodwill expense	**24**	38	(37)
	$ 1,278	$ 1,204	6

Commissions dropped by $3 million, or 1% from 1999. Increases due to strong sales across all of our operating divisions were offset by the impact of foreign currency translation.

General and other expenses rose by $91 million, or 11% over 1999, a large proportion of which can be attributed to higher sales volumes and sales force expansion in the United States and the United Kingdom. Other increases included costs to set up Canada Life Assurance Europe Limited, our German subsidiary, and Kanetix Ltd., our Canadian e-commerce operating subsidiary. As well, a $33 million benefit realized in 1999 that arose from a reduction in provisions for retiree benefit expenses, did not recur in 2000.

Goodwill expense of $24 million was $14 million less than 1999. The expense in 1999 included a write-down of goodwill of $12 million due to the recognition of economies of scale on the integration of the Metlife (U.K.) acquisition. A similar write-down was not required in 2000.

INCOME TAXES

The Company's effective tax rate increased to 36% in 2000, up from 29% in 1999, primarily as a result of a write-down of our future tax asset following proposed reductions in Canadian federal and Ontario provincial tax rates announced in 2000. The proposed reduction in the tax rates will lower tax charges in the future.

Performance by Business Segment

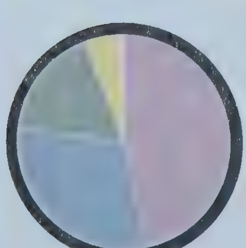
2000 Shareholders' net income*

	2000	1999
Canadian	34%	27%
U.K.	33%	40%
U.S.	21%	19%
Irish	8%	9%
Int'l & Reins	4%	5%

2000 Premium revenue*

	2000	1999
Canadian	44%	44%
U.K.	26%	26%
U.S.	18%	18%
Irish	9%	8%
Int'l & Reins	3%	4%

2000 Assets under administration*



	2000	1999
Canadian	47%	41%
U.K.	30%	34%
U.S.	17%	19%
Irish	5%	5%
Int'l & Reins	1%	1%

*Divisional Percentage of Total

OUR OPERATIONS are broadly organized along geographic market lines and we conduct our business through operating divisions in Canada, the United Kingdom, the United States, the Republic of Ireland and through a globally oriented International and Reinsurance Division. Each operating division focuses on its defined local market, with local responsibility for product development, marketing, distribution and pricing functions. Each division is required to meet corporate-wide strategic, business growth and expense objectives and to adhere to corporate risk management policies and guidelines. In addition, a corporate group oversees the management of invested assets, provides certain administrative services for each division and is responsible for capital management. Capital is allocated to support the business within each division using an MCCSR-based allocation model. Income on that capital is credited to each division.

DIVISIONAL FINANCIAL HIGHLIGHTS

(in millions of Canadian dollars)

For the year ended December 31, 2000	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
Shareholders' net income	$ 131	$ 127	$ 81	$ 29	$ 17	$ 385
Return on shareholders' equity	12.8%	12.6%	12.5%	16.7%	16.1%	13.0%
Premium revenue						
General fund	$ 1,749	$ 955	$ 1,351	$ 344	$ 277	$ 4,676
Segregated funds	1,909	1,258	115	407	3	3,692
	$ 3,658	$ 2,213	$ 1,466	$ 751	$ 280	$ 8,368
Assets under administration						
General fund	$ 13,944	$ 6,855	$ 9,872	$ 1,300	$ 741	$ 32,712
Segregated funds	8,326	11,219	854	1,980	4	22,383
Other assets	7,318	668	–	–	–	7,986
	$ 29,588	$ 18,742	$ 10,726	$ 3,280	$ 745	$ 63,081

For the year ended December 31, 1999	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
Shareholders' net income	$ 88	$ 128	$ 60	$ 29	$ 16	$ 321
Return on shareholders' equity	10.4%	12.2%	10.8%	17.7%	12.8%	11.6%
Premium revenue						
General fund	$ 1,911	$ 1,025	$ 1,200	$ 365	$ 320	$ 4,821
Segregated funds	1,466	914	144	213	–	2,737
	$ 3,377	$ 1,939	$ 1,344	$ 578	$ 320	$ 7,558
Assets under administration						
General fund	$ 13,175	$ 6,428	$ 9,278	$ 1,024	$ 823	$ 30,728
Segregated funds	7,648	11,453	1,026	1,747	1	21,875
Other assets	1,829	697	–	–	–	2,526
	$ 22,652	$ 18,578	$ 10,304	$ 2,771	$ 824	$ 55,129

Highlights

Shareholders' net income increased to $131 million, up 49% over 1999.

Expansion of the wealth management business through the acquisition of TD Bank Financial Group's group savings business has positioned us as a market leader in the group savings business and increases assets under administration by $5,240 million.

Acquired and successfully integrated the Confederation Life payout annuity business with general fund assets of $717 million.

Successfully completed the integration of the acquired Crown Life operations one year ahead of schedule. This acquisition has made a positive contribution to premium growth as well as profitability.

Significant growth in individual non-participating insurance business:

- *became a market leader in term insurance with a 133% growth in new business.*
- *achieved an 86% increase in new non-participating life insurance sales.*

Canadian Division

The Canadian Division offers a wide range of protection and wealth management products and related services through three distinct business units - investments and pensions, individual life and health insurance and group life and health insurance. Until the disposition of Canada Life Casualty Insurance Company on December 31, 2000, the Canadian Division also offered general insurance.

Financial Performance

Shareholders' net income of $131 million increased by $43 million or 49% over 1999 due to strong results in all lines of business. One-time benefits to net income this year included an after-tax gain of $18 million on the sale of our general insurance subsidiary and the after-tax impact of $30 million arising from the reduction in actuarial liabilities due to the impact of improvements in our asset and liability matching program. These benefits were offset by one-time charges against net income of $16 million for a reserve for integration expenses associated with the growth of our wealth management business and $31 million for the impact of income tax rate changes in Canada on cumulative tax balances. The benefits of strong sales, a reduction in distribution costs, repricing of certain products and the integration of business acquired from both Crown Life and Confederation Life were strong contributors to ongoing net income.

Divisional Outlook

In 2000, the Canadian Division will focus on evaluating and standardizing business processes to achieve improvements in quality, service turnaround and cost. In 2000, we established a Quality Service Office to lead this initiative. We are also increasing our investment in technology to enhance delivery of services to our independent distributors and customers and to improve operating efficiencies.

In the wealth management sector, we will leverage the benefits of the acquired group savings business by offering the expanded products and services of the combined business to our current and newly-acquired customer base; and by investing in a superior infrastructure (technology and processes) commensurate with the scale of the combined operations.

With the successful completion of both the integration of the Crown Life acquisition and the transition of our distribution system from career agents to independent agents, the focus for the individual life business in 2001 will be on continued growth through product excellence and enhanced customer service.

Kanetix Ltd., our e-commerce operating subsidiary, has now completed the implementation of its operating infrastructure and established a network of partners. We are now positioned for future growth and to become a player in the Canadian electronic marketplace for insurance. Our investment in kanetix.com is a key example of our commitment to our customers by offering them choice in product delivery.

The focus in group life and health insurance will be on growth and profitability by increasing efficiencies and enhancing customer service with investment in new claims, administration, and internet-based customer self-serve systems.

SUMMARY STATEMENT OF OPERATIONS

(in millions of Canadian dollars)		2000		1999
REVENUES				
Premium income	$	1,749	$	1,911
Net investment income		995		1,011
Fee and other income		177		127
		2,921		3,049
EXPENDITURES				
Policyholder benefits		2,082		2,367
Commissions		93		93
General expenses		410		354
Other		67		77
		2,652		2,891
Net income before income taxes		269		158
Income taxes		138		70
Net income		131		88
Participating policyholders' net income		–		–
Shareholders' net income	$	131	$	88
Return on shareholders' equity		12.8%		10.4%

REVENUES

General fund premium income dropped by $162 million or 8% from 1999. Strong sales of term insurance in the individual life business were offset by lower sales of guaranteed annuity products, where consumer preferences continued to shift toward equity market based products.

Premiums and premium equivalents

(in millions of Canadian dollars)		2000		1999
Annuities	$	312	$	571
Individual life and health insurance		547		508
Group life and health insurance		766		715
General insurance		124		117
General fund premiums		1,749		1,911
Segregated funds premiums		1,909		1,466
		3,658		3,377
ASO premium equivalents		365		307
	$	4,023	$	3,684

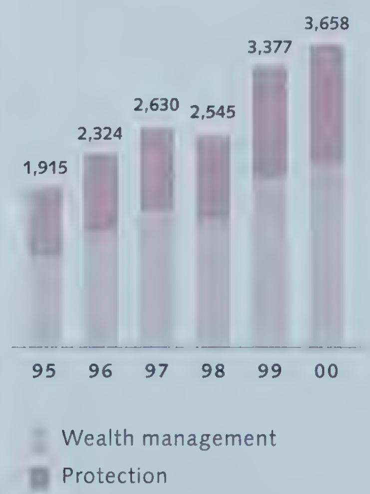
Segregated funds premiums increased by $443 million or 30% over 1999. This significant growth was the result of strong demand for equity-based products throughout 2000.

Net investment income decreased by $16 million or 2% from 1999 as volume and rate factors affected the level of net investment income.

Fee and other income rose by $50 million or 39% over 1999. The increase was due to the gain on the sale of the general insurance subsidiary and higher fee income of $28 million in the Investments and Pensions business unit, consistent with our increase in segregated funds assets.

General and segregated funds premiums - Canada

(in millions of Canadian dollars)



EXPENDITURES

Policyholder benefits decreased by $285 million or 12% from 1999. A reduction in the change in actuarial liabilities of $438 million was partially offset by an increase in payments to policyholders of $153 million. The change in actuarial liabilities was largely a result of lower premium income and higher payments to policyholders, primarily in the guaranteed annuity products. In addition, there was a one-time reduction of actuarial liabilities in the amount of $54 million due to a release of accumulated interest rate margins in our annuity business.

Commission expenses remained flat at $93 million. Strong growth in new individual life premiums required higher commissions, which were offset by lower commissions in other lines of business.

General expenses were up by $56 million or 16% over 1999 caused by higher sales in both the individual and group lines of business and investment in new administration systems. In addition, a prior year benefit arising from a reduction in provisions for retiree benefit costs did not recur in 2000.

Net income for the Canadian Division was reduced by $31 million as a result of the increase in the current year income tax provision for the cumulative effect of proposed tax rate changes on future tax assets.

INVESTMENTS AND PENSIONS

The investments and pensions business made a significant contribution to the Canadian Division results in 2000 from both a growth and profitability perspective.

The assets administered by the investments and pensions business unit of the Canadian Division grew to $20.4 billion as at December 31, 2000.

Consistent with our strategy to expand the wealth management business, we acquired TD Bank Financial Group's group savings business effective December 31, 2000, increasing our assets under administration by $5.2 billion. This acquisition made us a market leader in the group savings business, has positioned us for future growth in the wealth management business and will add to future fee income.

We also acquired the Confederation Life payout annuity business increasing our general fund assets by $717 million. This acquisition brings us additional economies of scale in this business. In addition to the successful integration of this acquisition, we have now fully integrated all aspects of our payout annuity business on to one operating system resulting in enhanced customer service and increased operating efficiencies.

Segregated funds premiums rose by $443 million or 30% over 1999. This growth was the result of the continuing demand for equity-based products and the success of our "Generations" segregated funds products. Segregated funds premiums, excluding conversions between segregated funds products, are up 12% over 1999.

INDIVIDUAL INSURANCE

The individual insurance business unit increased its premium income by $39 million, or 8% over 1999, attributable to a significant up lift in the non-participating business. Sales of new non-participating life products grew 86% from 1999, predominantly in term insurance sales where we have now become a market leader in Canada. The competitive pricing of our term insurance products was the key contributor to our strong sales.

The favourable results in this line of business can be attributed to a number of key accomplishments in 2000. We successfully completed the transition from a career agent to an independent agent distribution channel which has lowered expenses. As well, significant improvements in both our new business issue process and service to our independent agents contributed to our sales success.

GROUP LIFE AND HEALTH

Group life and health insurance premium income rose by $51 million or 7% over 1999, with growth in all areas of the business. The increase related to strong new business sales in all market segments, with particular success in the small case market which serves groups between 5 and 50 lives. The strong growth in the small case market is due to the market acceptance of our "Rewards" products.

We further strengthened our leadership position in the group creditor business by gaining new business with the underwriting of life and disability insurance for the clients of one of the major Canadian chartered banks. This business represents $130 million in gross annual premium, half of which is included in the 2000 results.

We also expanded our product line in the group creditor business in November, 2000 with the offering of credit card balance protection to another of the major Canadian chartered bank's VISA cardholders.

GENERAL INSURANCE

On December 31, 2000 we sold our 100% interest in our general insurance subsidiary, Canada Life Casualty Insurance Company, resulting in an after-tax gain of $18 million. Included in the Consolidated Statement of Net Income are premiums of $124 million and contributions to shareholders' net income of $10 million which, combined with the gain on sale, will not recur in the future. The decision to exit the general insurance business was consistent with our strategy to focus on wealth management and allowed us to reallocate capital to this business.

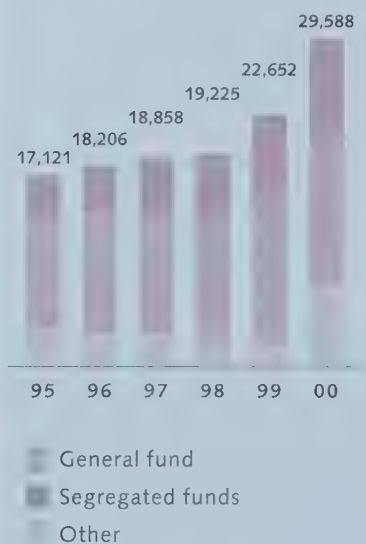
ASSETS UNDER ADMINISTRATION

(in millions of Canadian dollars)	**2000**	1999
General fund	**$ 13,944**	$ 13,175
Segregated funds	**8,326**	7,648
Other	**7,318**	1,829
	$ 29,588	$ 22,652

Total assets under administration increased by $6,936 million or 31% over 1999. The acquisition of the Confederation Life payout annuity business contributed $717 million of the $769 million increase in general fund assets while the sale of the general insurance subsidiary reduced the net increase by $232 million. Segregated funds assets rose $678 million or 9% over 1999 as a result of the increase in the Canadian equity market in 2000 and increased sales of segregated funds. The other assets under administration increased by $5,489 million primarily due to the acquisition of TD Bank Financial Group's $5,240 million in group savings business.

Assets under administration-Canada

(in millions of Canadian dollars)



Highlights

Shareholders' net income of $127 million, down from 1999, but up 6% in local currency.

Significant re-engineering and investment in our customer support and information systems continued in 2000 and is on track to deliver lower costs and higher service standards in 2001.

Focus on wealth management continued as the expansion of Canada Life International's Isle of Man operations resulted in premium revenue of $756 million, up 38%.

Distribution capability continued to expand, as evidenced by the 29% growth in new business premium sold by an increasing number of IFAs.

Product innovation was demonstrated by the launch of our Annuity Growth Account, a single premium, unit-linked product featuring an investment element and a flexible renewal provision.

United Kingdom Division

The U.K. Division offers a wide range of wealth management and protection products and related services in three main businesses; wealth management and retirement protection, individual life and health insurance and group life and health insurance. These businesses service customers through two major distribution channels; Independent Financial Advisors (IFAs) and the Financial Consultancy Division (FCD). Offshore wealth management products are mainly sold by IFAs through the Division's subsidiary, Canada Life International Limited, located on the Isle of Man.

Financial Performance

Shareholders' net income was $127 million for the year. The strengthening of the Canadian dollar against the British pound negatively impacted the comparison to prior year net income of $128 million by $10 million; in local currency, net income was up 6%. This increase was due to improved mortality experience in group life and strong results from our offshore subsidiary, Canada Life International Limited, which recorded a 38% increase in premiums and a significant improvement in fee and other income. These positive factors were offset by a strengthening of actuarial liabilities for the individual and group health businesses, due to higher morbidity.

Divisional Outlook

We expect that growth in our Wealth Management business will continue during 2001, as we develop and strengthen our relationships with key IFAs. We believe that our 2000 growth exceeded that of the market by 7%. We expect that trend to continue. Canada Life International will continue to grow as part of this expansion, selling through IFAs in the United Kingdom and brokers in other selected territories.

In 2000, we restructured our Financial Consultancy Division.This involved the closing of some branches and placing more focus on training and development. This is expected to lead to an increase in productivity per agent. We also expect to strengthen our group life and health market position during 2001 as the rationalization in this part of the market continues; however, market growth is not anticipated to exceed 5% in 2001.

We will continue to upgrade our information systems and reduce the number of systems currently in use. This work began in 2000 and is on track to deliver lower costs and higher service standards during the second half of 2001.

SUMMARY STATEMENT OF OPERATIONS

(in millions of Canadian dollars)		2000		1999
REVENUES				
Premium income	$	**955**	$	1,025
Net investment income		**475**		509
Fee and other income		**221**		193
		1,651		1,727
EXPENDITURES				
Policyholder benefits		**1,228**		1,315
Commissions		**73**		75
General expenses		**172**		157
Other		**20**		36
		1,493		1,583
Net income before income taxes		**158**		144
Income taxes		**31**		16
Net income		**127**		128
Participating policyholders' net income		**–**		–
Shareholders' net income	$	**127**	$	128
Return on shareholders' equity		**12.6%**		12.2%

REVENUES

Premiums

(in millions of Canadian dollars)		2000		1999
Annuities	$	**585**	$	682
Individual life and health insurance		**164**		165
Group life and health insurance		**206**		178
General fund premiums		**955**		1,025
Segregated funds premiums		**1,258**		914
	$	**2,213**	$	1,939

General fund premiums of $955 million were $70 million or 7% down from 1999. The majority of this decrease is the result of the strengthening of the Canadian dollar against the British pound. In local currency, general fund premiums were down 1%.

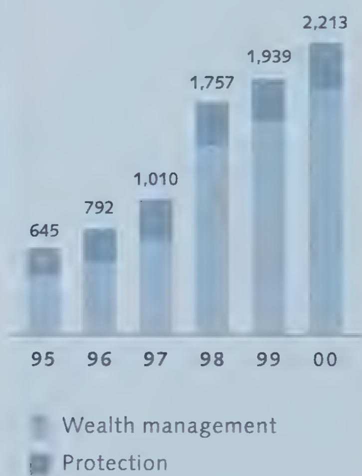
Segregated funds premiums of $1,258 million were up $344 million or 38% over 1999. These results are consistent with the continuing shift of consumer preference away from fixed income products towards segregated funds products and, in particular, offshore products. Canada Life International recorded a 79% increase in segregated funds premiums from offshore products, which are sold by IFAs mainly to U.K. residents.

Net investment income of $475 million decreased by $34 million or 7% from 1999. An increase in net investment income as a result of the investment yield enhancement program was more than offset by the effects of currency fluctuations.

Fee and other income of $221 million increased by $28 million or 15% over 1999. This is consistent with the continued growth in segregated funds assets resulting from the strong growth in new business, partially offset by the fall in the U.K. equity market during the year.

General and segregated funds premiums-United Kingdom

(in millions of Canadian dollars)



EXPENDITURES

Total expenditures decreased by $90 million or 6% from 1999, largely due to exchange rate fluctuations. In local currency, total expenditures increased by 1%.

Policyholder benefits decreased by $87 million or 7% from 1999. Payments to policyholders increased due to higher group life insurance claims and higher group payout annuity payments both consistent with the growth in new business. The increase in actuarial liabilities was lower than 1999, consistent with the drop in general fund premium income and increased claims payments. There have been no additions to the special provisions taken in 1999 and 1998 to provide for minimum annuity rate guarantees offered on certain U.K. policies sold prior to the mid-1980's and for compensation to certain policyholders who bought personal pension products from Canada Life or its acquired businesses in previous years. The rules for the calculation of compensation for prior pension product sales are prescribed by the U.K. regulator. The provisions for prior pension products sales have been recorded net of estimated recoveries from the vendors of businesses we have acquired.

General expenses increased by $15 million or 10% from 1999 as we expanded our IFA channel to 69 consultants, both onshore and offshore, and invested in new information systems supporting customer service and financial reporting.

Other expenses decreased by $16 million or 44% from 1999. In 1999, goodwill was written down by $12 million to reflect economies of scale from the integration of the Metlife (U.K.) operations purchased in 1997. This expense item did not recur in 2000.

The effective rate of tax on net income increased to 20%, up from 11% in 1999. Included in the tax provisions for 1999 were certain benefits associated with the demutualization process and the corporation's reorganization activities which have not recurred in 2000.

INVESTMENTS AND PENSIONS

Our expansion in the IFA channel contributed to an increase of 38% in segregated funds premiums overall. This increase is also evidence of the continuing shift in consumer preference towards equity-based products, as is the decrease of $97 million or 14% in annuity premium income. Strong sales in group payout annuities in the U.K. were more than offset by a decrease in sales of single premium bonds by Canada Life International.

To meet consumers' preference for more flexibility in retirement income our new Annuity Growth Account was launched in the second half of 2000 and recorded new sales premiums of $53 million. This product received market praise for its innovative and flexible approach to the perceived disadvantages of the compulsory purchase annuity product.

Both of our distribution channels were supported with an active seminar program on our key wealth management products and enhanced advertising.

INDIVIDUAL LIFE AND HEALTH INSURANCE

Non-participating individual life and health insurance premiums increased by $8 million or 15% over 1999 due to strong renewal premiums and steady new business through the increased IFA channel. This growth was partially offset by exchange rate fluctuations.

Improved mortality led to improved pricing in the market for term business. Our term insurance rates are now priced competitively and we expect to see increased growth in new business in 2001 as a result.

Participating individual life premiums decreased by $9 million or 8% over 1999. As planned, no new business is being sold in these closed funds, which will decline as policies terminate, mature or lapse.

GROUP LIFE AND HEALTH INSURANCE

Group life and health premium income increased by $28 million or 16% over 1999, reflecting new business and strong renewal premium growth during the year. Our market share for group life continues to increase, reaching 10% by the end of 2000.

We remain a key partner in the Insurope multi-pooling scheme. This sharing arrangement among a number of large insurers across Europe services the group insurance needs of large multi-national corporations. This is a source of revenue premium growth and contributes to our increase in market share.

ASSETS UNDER ADMINISTRATION

(in millions of Canadian dollars)	**2000**	1999
General fund	**$ 6,855**	$ 6,428
Segregated funds	**11,219**	11,453
Other	**668**	697
	$ 18,742	$ 18,578

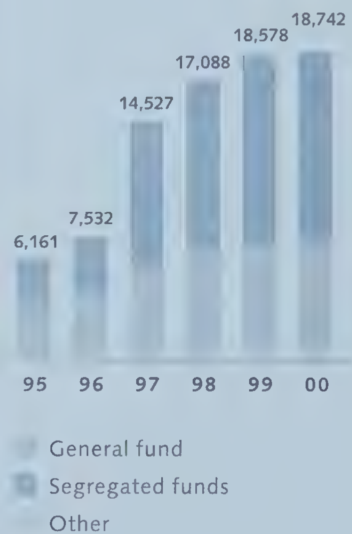
Total assets under administration of $18,742 million increased $164 million or 1% over 1999. The impact of currency translation due to the change in rates over 1999 was a negative $718 million.

General fund assets grew by $427 million or 7% over 1999. This increase is consistent with the level of growth in new business and payment timing for group payout annuities, the largest component of liabilities that these assets support.

The impact of the strengthening of the Canadian dollar against the British pound caused the decrease of $234 million in segregated funds assets relative to 1999. In local currency, these assets grew by 2% resulting from strong growth in new business partially offset by the fall in the U.K. equity market during 2000.

Assets under administration-United Kingdom

(in millions of Canadian dollars)



Highlights

Shareholders' net income increased by $21 million or 35% over 1999.

Group sales force expansion resulted in 10 new sales offices and 44 new sales representatives which positioned the U.S. Division for future revenue and net income improvements for protection products.

Successful introduction of variable universal life and other product enhancements in individual life insurance to broaden the Division's product portfolio.

United States Division

The U.S. Division offers a wide range of protection and wealth management products and related services. It is organized into two operational areas that market (i) group life insurance, disability income insurance and other group protection products, and (ii) individual life insurance and savings and investment products. For ease of comparison among divisions, the U.S. Division's discussion and analysis is broken down by product grouping rather than by distribution channels.

Financial Performance

Shareholders' net income increased to $81 million for 2000, a 35% increase over 1999. The strong results achieved in 2000 were the result of premium growth in all lines of business, a favourable impact from changes in actuarial liabilities from revised assumptions and refinements in the basis of calculating these liabilities, the addition of a block of individual life insurance business included in the International and Reinsurance Division in 1999 and the reduction of a prior year tax liability.

Divisional Outlook

Building on a strong year in 2000, we will continue to execute our core strategy of enhancing our group and individual insurance businesses, while continuing to move towards company objectives for earnings and return on shareholders' equity.

Higher sales results are necessary to generate organic growth with associated economies of scale in both the group and individual portions of the business. In the group area this requires continued strong sales increases from the group sales expansion initiative while maintaining profit margins and improving client retention rates. In the individual portion of the business, we will focus on turning the successful new product launches of late 2000 into significantly higher sales in 2001. We are well positioned to deliver on these objectives.

In the first quarter of 2001 we expect to complete the last of the major systems initiatives begun in earlier years. We intend to roll out internet functionality for many of our systems, focusing on client and producer self-service. This coming year will also involve a number of financial reporting initiatives, as we continue to improve our reporting and analysis capabilities.

SUMMARY STATEMENT OF OPERATIONS

(in millions of Canadian dollars)		**2000**		1999
REVENUES				
Premium income	$	**1,351**	$	1,200
Net investment income		**698**		659
Fee and other income		**21**		18
		2,070		1,877
EXPENDITURES				
Policyholder benefits		**1,731**		1,566
Commissions		**80**		81
General expenses		**134**		124
Other		**27**		15
		1,972		1,786
Net income before income taxes		**98**		91
Income taxes		**25**		31
Net income		**73**		60
Participating policyholders' net loss		**(8)**		–
Shareholders' net income	$	**81**	$	60
Return on shareholders' equity		**12.5%**		10.8%

REVENUES

Premiums

(in millions of Canadian dollars)		**2000**		1999
Annuities	$	**580**	$	466
Individual life and health insurance		**428**		413
Group life and health insurance		**343**		321
General fund premiums		**1,351**		1,200
Segregated funds premiums		**115**		144
	$	**1,466**	$	1,344

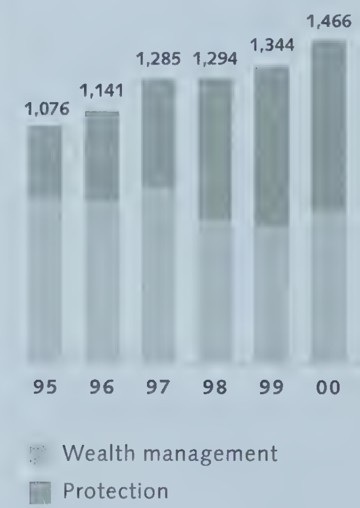
General fund premium income of $1,351 million in 2000 increased by $151 million or 13% from 1999. The premium growth in the annuity line was a result of strong GIC sales somewhat offset by a decline in structured settlement and payout annuity products, reflective of the interest rate environment in 2000. Individual life insurance premium income was relatively flat due to declining participating insurance sales offset by increased non-participating insurance sales. The increase in group life and health premium income is a direct result of the group sales force expansion initiative started in 1999.

Segregated funds premiums of $115 million in 2000 were $29 million or 20% lower than in 1999, reflecting the Division's de-emphasis of this business late in 1999.

Net investment income increased by $39 million or 6% over 1999. The drop in the equity market was more than offset by increases due to the investment of the Crown Life assets in 1999. In addition, subsequent amortization of 1999 gains in 2000, the yield enhancement program, the addition of the Crown Life block of business transferred from the International and Reinsurance Division in 2000, and higher investment income on capital all contributed to the result.

General and segregated funds premiums-United States

(in millions of Canadian dollars)



Fee and other income increased by $3 million or 17% over 1999, primarily due to increased mortality and expense fees on segregated funds assets, resulting from a higher asset base that existed for most of 2000, prior to the fourth quarter U.S. equity market decline.

EXPENDITURES

Policyholder benefits increased by $165 million or 11% over 1999. Payments to policyholders increased by $66 million or 4%, primarily related to increased claims due to reduced reinsurance recoveries and the addition of the block of individual life insurance business transferred from the International and Reinsurance Division. The change in actuarial liabilities increased by $99 million, primarily as a result of strong GIC sales, somewhat offset by higher policyholder payments.

General expenses were up by $10 million or 8% over 1999. 2000 expenses were higher due to a $19 million reduction in provisions for retiree benefit expenses recorded in 1999 and a $9 million expense associated with the group sales force expansion in 2000. These increases were partially offset by reduced Crown Life expenses and a number of other expense reductions.

Income taxes dropped by $6 million or 19% from 1999 primarily due to a reduction of a prior year tax liability.

INVESTMENTS AND PENSIONS

Annuity premium income increased 24% in 2000 as a result of strong GIC sales somewhat offset by a decline in structured settlement and payout annuity products, reflective of the interest rate environment that prevailed through much of 2000. While GICs are not a core growth product, we will write them when spreads are favourable. With the relatively high level of short-term rates in 2000, we were able to write more of this business and still achieve targeted spreads. Conversely, with medium and longer term rates being relatively low for most of the year, it was challenging to write as much profitable, structured settlement and payout annuity business as in 1999. While protection products are our primary focus, we will continue to look for opportunities to write wealth accumulation business where our return objectives can be met.

In 2000 a number of initiatives were completed including back office and systems improvements to streamline operations, reduce costs, and improve controls. We also improved the capital efficiency of this business by removing excess capital from the subsidiary in which the majority of the liabilities are held.

INDIVIDUAL LIFE AND HEALTH INSURANCE

Individual life and health premium income grew $15 million or 4%. Although participating life insurance business has constituted the majority of premium income in the past and will continue to play an important role going forward, our focus is on expanding our product offering and revenue base in non-participating products, where 2000 premiums increased $33 million or 25%.

The focus within the individual insurance operation in 2000 was centred on updating and increasing the breadth of our product portfolio. In the fourth quarter of 2000 the first variable universal life product was launched, in addition to 10 product initiatives aimed at enhancing the product portfolio for 2001. Since the majority of these products were introduced late in 2000, the revenue effects will not be seen until 2001. Major progress occurred in the renovation of administrative

and actuarial systems in 2000. These improvements will enhance policyholder service, reduce costs, and improve analytical capabilities when completed early in 2001. The integration of the Crown business was substantially completed in 2000, and this business is exceeding our expectations for unit cost reduction and net income improvement.

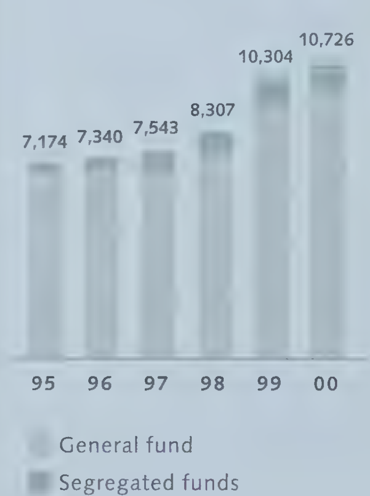
GROUP LIFE AND HEALTH INSURANCE

Revenue premium increased by $22 million or 7% compared with 1999. This increase was primarily the result of the expansion of the group sales force which began in 1999. New sales in 2000, as measured by new annualized premiums, were especially strong at $104 million, an increase of 49% over 1999. The increase in revenue premium was offset somewhat by lapses in the block of business acquired as part of the Crown Life acquisition.

In 1999, the group insurance operation began a significant sales force expansion, the objective of which was to increase the number of sales offices from 17 to 26 by 2001. The goal has already been exceeded and currently there are 27 offices in operation with 44 new sales representatives. The expansion has already contributed to a strong sales increase in 2000, and this progress is expected to continue in 2001 when the new offices and representatives are in place for the full year. 2000 also marks the successful completion of the administrative and claims system conversion projects begun in earlier years. These projects will improve operations going forward by reducing expenses and improving customer service. The product portfolio was enhanced by two major product development initiatives, voluntary dental and an updated short-term disability product.

Assets under administration-United States

(in millions of Canadian dollars)



ASSETS UNDER ADMINISTRATION

(in millions of Canadian dollars)		**2000**		1999
General fund	**$**	**9,872**	$	9,278
Segregated funds		**854**		1,026
	$	**10,726**	$	10,304

Total assets increased $422 million or 4% over 1999. Total general fund assets were up $594 million or 6% over 1999. Most of the increase in general fund assets occurred due to the strengthening of the U.S. dollar over the Canadian dollar in 2000. Total segregated funds assets decreased by $172 million or 17% over 1999, primarily attributable to a decline in the U.S. equity market during the fourth quarter of 2000.

Since protection products are our primary focus, U.S. asset growth is expected to be below the growth rate for the Company as a whole.

Irish Division

The Irish Division offers a wide range of protection and wealth management products and other services and is organized according to its two major distribution channels; career agents and brokers. For ease of comparison among divisions, the Irish Division's discussion and analysis is broken down by product grouping rather than by distribution channels.

Shareholders' net income was $29 million for the year. The strengthening of the Canadian dollar against the Irish pound which was tempered by the relative weakness of the Euro, impacted the comparison to prior year net income of $28 million by $6 million. In local currency, net income grew by 20% over 1999, largely attributable to strong sales across all lines of business.

We have significant market share in the Republic of Ireland in both the protection and wealth management markets. For 2001, we will focus on three core lines of business. First, we will focus on company sponsored pensions which is a rapidly growing market. By focusing on customer service in the pension market, we expect growth in this business. Pension administration and client management systems put in place in 1999 will continue to support this growth, as well as the strength of both the direct sales and broker distribution channels.

Second, we expect to build on the excellent performance of Setanta, by focusing on investment related products for which there is increased demand as overall wealth and disposable incomes rise in the buoyant Irish economy. Although Setanta only commenced operation in 1999, its performance to date will allow us to compete for external investment management business.

Third, we will focus on protection business, with particular emphasis on life and critical illness coverage. This will be achieved through continued protection product innovation, endorsing our position as an industry leader in this area.

New developments for 2001 will include top line revenue growth for the German operation, as the Division targets innovative products to a large population of wealthy individuals.

Highlights

Shareholders' net income increased by $1 million to $29 million.

In July 2000, we launched Canada Life Assurance Europe Limited to sell in the German market. The company has since won a top award for product innovation in Germany.

Setanta, the Irish asset management company, had an excellent year in which the flagship pension managed fund was the top performing fund in its category.

SUMMARY STATEMENT OF OPERATIONS

(in millions of Canadian dollars)		2000		1999
REVENUES				
Premium income	$	**344**	$	365
Net investment income		**77**		79
Fee and other income		**62**		51
		483		495
EXPENDITURES				
Policyholder benefits		**327**		360
Commissions		**42**		34
General expenses		**68**		66
Other		**3**		3
		440		463
Net income before income taxes		**43**		32
Income taxes		**11**		4
Net income		**32**		28
Participating policyholders' net income		**3**		–
Shareholders' net income	$	**29**	$	28
Return on shareholders' equity		**16.7%**		17.7%

REVENUES

Premiums

(in millions of Canadian dollars)		2000		1999
Annuities	$	**133**	$	124
Individual life and health insurance		**203**		232
Group life and health insurance		**8**		9
General fund premiums		**344**		365
Segregated funds premiums		**407**		213
	$	**751**	$	578

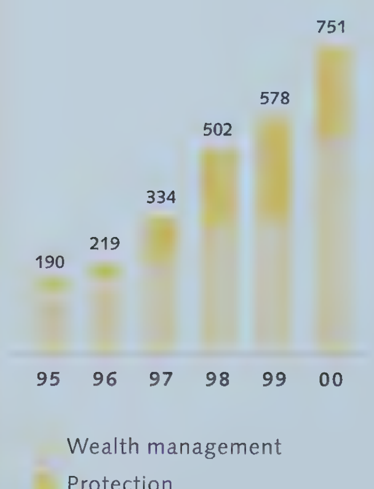
Total premium revenue grew $173 million or 30% over 1999. General fund premiums fell in Canadian dollars, due to the impact of the change in currency rates. There was strong growth in segregated funds premiums, a 91% increase in Canadian dollars or 121% growth in local currency. This shift towards segregated funds business is consistent with our objective of expanding the wealth management business and represents a strategic move towards lower risk, higher margin products.

Net investment income grew by 13% in local currency reflecting the growth in underlying assets. However, the change in currency rates means that this translated to a slight decrease in Canadian dollars.

Fee and other income rose by $11 million or 22% over 1999 as a result of higher segregated funds business and strong investment returns.

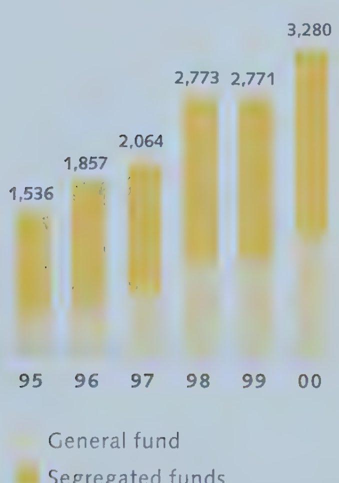
General and segregated funds premiums-Republic of Ireland

(in millions of Canadian dollars)



Assets under administration-Republic of Ireland

(in millions of Canadian dollars)



EXPENDITURES

Policyholder benefits dropped $33 million or 9% from 1999 due to a combination of the impact of the change in currency rates, favourable mortality experience on both group and individual business and a lower level of policy lapses. Cash surrender values decreased $7 million from 1999 due to the strong equity markets and the level of maturities of guaranteed bonds, which was $17 million lower than in 1999.

Commissions rose $8 million or 24% over 1999, reflecting the strong sales of segregated funds business and premium growth in this area.

General expenses grew by $2 million over 1999 caused by a $6 million expenditure on setting up our German operation, partially offset by exchange rate changes.

INVESTMENTS AND PENSIONS

Consumer preference for using segregated funds for both investment and pension purposes helped premium revenue in this business segment increase by 130% in local currency.

Also within this business segment, Setanta, the Irish asset management company achieved excellent fund performance. The company's flagship pension managed fund moved from 10th to 1st place out of 17 funds in its category.

INDIVIDUAL LIFE AND HEALTH INSURANCE

General fund premium income for individual life and health insurance was unchanged from 1999 in local currency. However, segregated funds business achieved 30% growth in premium revenue.

Canada Life Assurance Europe Limited won a top award for product innovation in Germany. "Capital", a leading German investor journal, gave us first place among life insurance products for our new disability plan.

GROUP LIFE AND HEALTH INSURANCE

Group products represent a very small part of the Irish Division's sales. In 2000, premium income in this segment was unchanged from 1999 in local currency.

ASSETS UNDER ADMINISTRATION

(in millions of Canadian dollars)		2000		1999
General fund	$	1,300	$	1,024
Segregated funds		1,980		1,747
	$	3,280	$	2,771

Total assets increased $509 million or 18 % over 1999. In local currency, this increase was 22% and can be attributed to strong revenue growth in all lines of business.

Within the general fund, single premium new business grew substantially, leading to an increase in equities of 35% in Irish pounds, but was partially offset by the impact of the change in currency rates.

Segregated funds assets rose along with strong equity market performance and consumer demand for equity-based products.

International and Reinsurance Division

The International and Reinsurance Division is organized into two operational areas: the International operation which manages the Brazilian subsidiary holdings and certain non-North American business acquired from Crown Life, including the Hong Kong, Macau, Puerto Rico, Bermuda and Bahamas operations; and the Reinsurance operation which manages Canada Life's reinsurance business. The Division's Reinsurance operation acts primarily as a direct reinsurer in the regular life insurance business and as both a reinsurer and a retrocessionaire in the accident and health insurance business. The Division also administers financial reinsurance contracts. The majority of the Division's reinsurance business is in the United States.

Financial Performance

Shareholders' net income increased by slightly more than $1 million or 6% over 1999, as significantly increased development expenses were more than offset by favourable mortality experience on a larger exposure of mortality risk. Premium revenue decreased by $40 million driven by a planned run-off in accident and health reinsurance and an internal transfer of a block of international business to our U.S. Division.

Divisional Outlook

The year 2001 will see an exciting period of growth for our International and Reinsurance Division in all territories and businesses, the major aspects of which follow:

For our international operations:

- In our Brazilian subsidiary, growth in premium income from group savings and group insurance are expected to be significant. However, net income will be dampened by the expenses required to develop a critical mass of business.
- The integration of former Crown Life business in the Pacific region is expected to be completed, in addition to the resumption of sales operations in Hong Kong.
- The establishment of a Puerto Rico subsidiary is planned, to reflect our comprehensive local business presence and to capitalize on sales opportunities.

For our reinsurance operations:

- Our life reinsurance market share is expected to increase in the United States, and new business opportunities are planned through Canada Life International Re (Dublin).
- We expect an expansion of our specialty accident and health reinsurance premium base, in non-medical markets.

Highlights

Shareholders' net income rose by $1 million to $17 million.

Life reinsurance premium income grew 22%.

Joint venture stake in Brazil increased from 70% to 90%.

Former Crown Life operations have been integrated with improved performance.

SUMMARY STATEMENT OF OPERATIONS

(in millions of Canadian dollars)	2000	1999
REVENUES		
Premium income	$ 277	$ 320
Net investment income	61	63
Fee and other income	3	4
	341	387
EXPENDITURES		
Policyholder benefits	228	275
Commissions	53	61
General expenses	27	22
Other	9	6
	317	364
Net income before income taxes	24	23
Income taxes	6	7
Net income	18	16
Participating policyholders' net income	1	–
Shareholders' net income	$ 17	$ 16
Return on shareholders' equity	16.1%	12.8%

General and segregated funds premiums-International and Reinsurance

(in millions of Canadian dollars)

REVENUES

Premiums

(in millions of Canadian dollars)	2000	1999
Annuities	$ 1	$ –
Individual life and health insurance	55[1]	64
Group life and health insurance	68	54
Reinsurance:		
Life	122	100
Accident and health	31	102
General fund premiums	277	320
Segregated funds premiums	3	–
	$ 280	$ 320

[1] *Premium income decreased by $11 million from 1999 due to an internal transfer of business to the U.S. Division.*

INTERNATIONAL OPERATIONS

Our International operation offers life, health and pension insurance products through multiple distribution channels including agents, insurance brokers and the internet. In 2000, group insurance and pension related products were launched in Brazil. The established Beijing representative office continued to study market conditions in the People's Republic of China.

Premium income for the International operation increased to $127 million in 2000, up $20 million, or 19% from 1999 on a comparative basis after adjusting for an internal transfer of business. Group sales were particularly high as a result of focusing on specific market segments in Puerto Rico and Brazil. Participating premiums decreased in 2000, reflecting the run-off of the closed funds since demutualization.

In 2000, we injected capital into our Brazilian joint venture (Canada Life Pactual Previdência e Seguros), increasing our ownership stake to 90%. We also made a decision to discontinue our insurance license application in India, concentrating resources on current operations. The transfer of several business units from Crown Life was successfully completed in the Caribbean, and in the Pacific region, significant progress was made towards effecting transfers early in 2001.

REINSURANCE OPERATIONS

Our Reinsurance operations continued to expand in 2000 in select business lines, primarily life reinsurance. Life reinsurance premiums increased to $122 million from $100 million in 1999 backed by strong growth in sales. Many new customer relationships were developed in this market and mortality results were favourable.

The run-off of medical contracts in the accident and health reinsurance line progressed as anticipated, resulting in a large drop in premium income from $102 million in 1999 to only $31 million in 2000 and a corresponding decrease in policyholder benefits. Accident and health settlements for U.S. medical reinsurance contracts acquired from Crown Life continued to show good progress.

Commissions for the operation decreased in line with the run-off of accident and health medical contracts, partially offset by an increase due to growth in life reinsurance business.

During 2000, a new subsidiary, Canada Life International Re (Dublin) was approved by the Office of the Superintendent of Financial Institutions, Canada and Irish regulators to pursue international reinsurance opportunities.

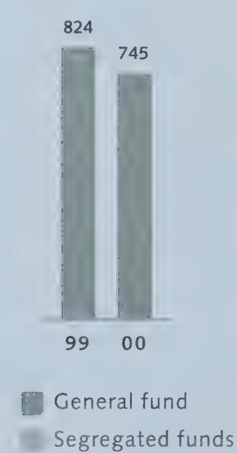
ASSETS UNDER ADMINISTRATION

(in millions of Canadian dollars)		2000		1999
General fund	$	**741**	$	823
Segregated funds		**4**		1
	$	**745**	$	824

Total assets decreased $79 million or 10% from 1999. Increases due to higher business volumes in our International operation were more than offset by an internal transfer of a block of individual life insurance business to our U.S. Division and a decrease in reinsurance operations, as a result of the reduction in accident and health reinsurance business.

Assets under administration-International and Reinsurance

(in millions of Canadian dollars)



Investment Division

OPERATIONS

Our investment operations are comprised of investment management groups in Toronto, London and Dublin including various investment subsidiaries[1] and are responsible for investment portfolio management and administration of the Company's invested assets across all business units. Toronto investment management is responsible for setting investment policy for our worldwide operations and for managing the Company's North American assets. Investment management in London and Dublin directly manage the Company's U.K. and Irish operations respectively, to capitalize on the asset selection and management expertise within those local markets.

Considerable effort is directed towards total portfolio management results. These results are monitored through key performance measures of return on invested assets and are compared against benchmarks established for invested assets both in the operating funds and supporting the equity of the Company as appropriate.

STRATEGY

Our investment management objectives for general fund invested assets are:

- to support corporate objectives with regard to growth, earnings and financial strength;
- to achieve top quality investment performance, within appropriate risk/reward parameters; and
- to protect the contractual benefits of the Company's policyholders.

Over the past few years, a key part of our strategy for the general fund invested assets has been to increase the proportion of fixed income securities and reduce dependence on stocks and real estate in order to improve liquidity and diversification and better manage capital.

We have initiated two yield enhancement programs over the past two years that have improved yield while minimizing any unfavourable increase in credit risk or decrease in liquidity. Both of these programs involve selling a portion of senior government bonds and lower yielding securities, and replacing them with higher yielding public bonds, private placements and conventional mortgages. The result of these programs continues to be a high quality asset portfolio.

We continue to apply our asset origination expertise in mortgage underwriting and private placement bonds.

Looking forward to 2001, we will continue to focus on optimizing investment returns within acceptable risk/reward parameters. The yield enhancement programs are complete and their improvement to the yield of the portfolio has been seen in 2000 and will continue in 2001 and future years. We will continue to focus on finding new sources and types of investments, asset/liability management, asset mix shifts, derivative instruments, bond portfolio management, fee generation opportunities and advancing the use and capabilities of technology.

(1) The Company's principal wholly-owned Canadian investment subsidiaries are:

- *Canada Life Mortgage Services Ltd ("CLMS") which specializes in originating and servicing mortgage investment loans for institutional clients.*
- *Adason Properties Ltd. ("Adason") which acts as the advisor and property manager for the Company's North American real estate portfolio.*

In addition, the Company owns 35% of Laketon Investment Management Ltd. ("Laketon") which manages assets on behalf of the Company and third parties.

Financial Position

[illegible]

The mix of general fund invested assets based on carrying values by type of investment was as follows:

Invested assets

(in millions of Canadian dollars)		2000			1999	
Bonds:						
Government	$	6,647	21%	$	6,686	23%
Corporate and other		11,034	35		9,714	34
		17,681	56		16,400	57
Mortgages:						
Insured		874	3		769	3
Non-insured		6,709	22		6,348	22
		7,583	25		7,117	25
Common and preferred stocks		2,002	6		1,868	6
Real estate		851	3		974	3
Policy loans		988	3		942	3
Cash and cash equivalents and short-term investment		1,424	5		1,033	4
Other investments		594	2		673	2
Total invested assets - carrying value	$	31,123	100%	$	29,007	100%
- fair value	$	32,786		$	30,247	

The fair value of invested assets exceeded their carrying value by $1,663 million, compared with an excess of fair value over carrying value of $1,240 million in 1999. This increase reflected lower interest rates which resulted in higher bond and mortgage fair values in 2000, offset by generally weaker equity markets. Changes in the fair value of assets supporting the actuarial and other liabilities of the Company's operating funds, generally will not result in a corresponding change in net income and shareholders' equity, due to our asset/liability management practices. However, the excess of fair value over carrying value as well as the net deferred realized gains on assets supporting shareholders' equity will in time be amortized into net income and shareholders' equity. This excess totalled $463 million in 2000 compared with $390 million in 1999.

The aggregate amount of impaired assets declined to $86 million at the end of 2000, compared with $94 million in 1999. The net decrease reflected continued improvements in the North American commercial mortgage markets which helped reduce impaired mortgages, partially offset by an increase in impaired corporate and other bonds.

BONDS

Bond portfolio quality

(in millions of Canadian dollars)		2000			1999	
AAA	$	6,760	38%	$	7,915	48%
AA		2,630	15		2,029	12
A		4,617	26		3,420	21
BBB		3,025	17		2,579	16
Below BBB/ unrated		649	4		457	3
Total bonds	$	17,681	100%	$	16,400	100%
Average Bond Rating		AA-			AA-	

Our policy is to maintain a bond portfolio having a minimum weighted average rating of A, within acceptable risk levels. Bonds are rated by independent rating agencies, where available, or by us on a basis comparable to that used by independent rating agencies. In addition, our investment policy limits the permitted proportion of high yield debt investments that are below Investment Grade (below the BBB range) to 5% of consolidated bonds and mortgages in consideration of the higher risk profile of these types of investments.

Over the last two years, we purchased $2.8 billion of investments ($700 million in 2000 and $2.1 billion in 1999) for the yield enhancement programs. While most of the bonds purchased had a weighted average rating of A, the average bond portfolio quality rating of AA- was maintained (compared to AA in 1998) with some decrease in the liquidity of the fixed income portfolio and an overall improvement in yield. The high yield bond program, implemented in 1997, has achieved the projected enhanced yields. The amount invested in this program at December 31, 2000 totalled $370 million, an increase from $266 million at the end of 1999.

Bonds issued or guaranteed by governments in countries where we operate represented 38% of the total bond portfolio for 2000 compared to 40% for 1999.

As at December 31, 2000, approximately $41 million of our bonds ($24 million in 1999) were classified as impaired. We have established and follow industry and issuer diversification policies and seek to minimize credit risk exposure to individual issuers. These policies, combined with conservative and thorough underwriting and lending practices, contributed to the high credit quality of our bond portfolio.

MORTGAGES

Mortgage property type

(in millions of Canadian dollars)	2000		1999	
Apartment	**$ 2,573**	**34%**	$ 2,532	36%
Retail	**2,519**	**32**	2,445	34
Industrial	**1,255**	**17**	1,061	15
Office	**1,029**	**14**	872	12
Other	**207**	**3**	207	3
	$ 7,583	**100%**	$ 7,117	100%

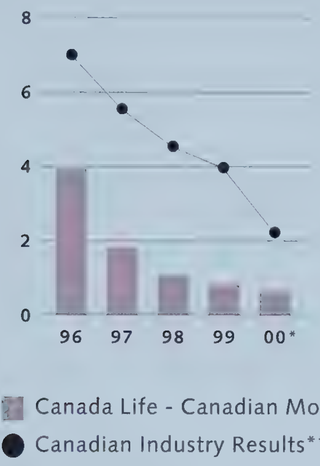
We invest almost entirely in first mortgages in our mortgage portfolio. We do not participate in speculative development lending or single family residential mortgages and have not invested significantly in participating mortgages. The mortgage portfolio includes $874 million ($769 million in 1999) of government insured mortgages, all in the Canadian portfolio. While we generally require a maximum loan to value ratio of 75% on non-insured mortgages, we may invest in mortgages with a higher loan to value ratio if the mortgages are insured.

We actively manage the asset quality of our mortgage portfolio. At the end of 2000, a record new business year for mortgages, we held a high quality mortgage portfolio with a weighted average rating, excluding government-insured mortgages, of A. Mortgages are rated using a formal internal rating system during the initial approval process, on renewal or when identified by mortgage personnel as requiring re-rating. We have established overall minimums for mortgage portfolio credit quality. A weighted average minimum rating, excluding government-insured mortgages, of BBB-, has been set for the mortgage portfolio which is on a basis that we believe to be comparable with definitions used by an independent rating agency.

The majority of our mortgage portfolio is located in Canada and the United States. As at December 31, 2000, approximately $17 million ($42 million in 1999) of mortgage investments were classified as impaired. Commercial real estate in North America continued a trend of moderate improvement in 2000.

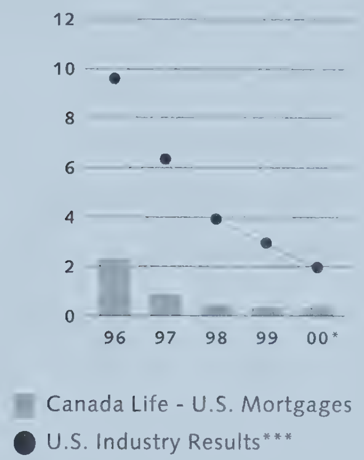
The overall arrears and restructuring experience for our mortgage portfolio improved further in 2000 and was more favourable than industry averages in both Canada and the United States as detailed in the following graphs.

Mortgage Arrears and Restructuring Experience Canada (%)



*September 2000 Industry Survey Results
**Source: Canadian Life and Health Insurance Association Inc.

Mortgage Arrears and Restructuring Experience U.S. (%)



*September 2000 Industry Survey Results
***Source: American Council of Life Insurance

COMMON AND PREFERRED STOCKS

Common and preferred stocks by jurisdiction

(in millions of Canadian dollars)	2000		1999	
Canada	$ 387	20%	$ 445	24%
United Kingdom	802	40	804	43
United States	306	15	233	12
Republic of Ireland	507	25	386	21
Total carrying value*	$ 2,002	100%	$ 1,868	100%

* *Preferred stocks comprise $74 million or 4% (1999 - $87 million or 5%) of the total carrying value of common and preferred stocks.*

The carrying value of common and preferred stocks rose to $2,002 million in 2000, compared with $1,868 million in 1999. Included in the carrying value is the amortization of unrealized gains of $59 million in 2000 ($111 million in 1999). The excess of fair value of common and preferred stocks over carrying value fell to $416 million by year-end, compared with $642 million at the end of 1999, the result of lower stock values in global equity markets.

The stock portfolio is diversified by industry classification and issuer. As at December 31, 2000, the largest issuer represented 2% (unchanged from 1999) of the common and preferred stock portfolio based on the carrying value of those securities.

The shift in jurisdictional asset mix in 2000 reflected our continuing strategy of monitoring the asset mix in each operating jurisdiction and enhancing yields based on market-related forecasts.

REAL ESTATE

Real estate by property type

(in millions of Canadian dollars)	2000		1999	
Offices	$ 300	35%	$ 226	23%
Company head office	206	24	211	22
Industrial	141	17	106	11
Retail	126	15	357	37
Other	78	9	74	7
	$ 851	100%	$ 974	100%

The above table indicates the diversification of our real estate holdings.

Investments in real estate of $ 851 million represented a $123 million or 13% reduction from 1999, which is consistent with our focus on reducing our real estate exposure in North America and rebalancing our overall investment portfolio. In October 2000, Sherway Gardens Shopping Centre, a large retail complex in Toronto, Canada which the Company has owned since 1978 was sold for cash proceeds of $389 million. The resulting after tax gain on sale of $81 million was deferred and will be amortized to income at 10% per annum.

Total assets under administration of $63,081 million at year-end have grown by $7,952 million or 14% over 1999. In addition to the growth in the invested assets of the general fund, we added significantly to both the segregated funds assets as well as other assets under administration.

Assets under administration

(in millions of Canadian dollars)	2000	1999	% Change
Invested assets	$ 31,123	$ 29,007	7
Other	1,589	1,721	(8)
General fund assets	32,712	30,728	7
Segregated funds assets	22,383	21,875	2
Other assets	7,986	2,526	216
	$ 63,081	$ 55,129	14

SEGREGATED FUNDS ASSETS

Segregated funds assets grew by 2% in 2000. The increase in segregated funds assets was due to growth in business in Canada, the United Kingdom and the Republic of Ireland as well as positive equity market performance in Canada and the Republic of Ireland. Growth in premiums and transfers from the general fund exceeded withdrawals, benefits payments and transfers to the general fund and was substantially ahead of 1999. These increases were offset in part by an overall decrease in asset fair values as a result of market volatility and by the impact of foreign currency translation.

OTHER ASSETS

Effective December 31, 2000, the Company acquired the TD Bank Financial Group's group savings business. With this acquisition, we have increased the base of other assets under administration that we manage by a substantial $5,240 million.

ACTUARIAL LIABILITIES

Actuarial liabilities represent the amounts required, together with future premiums and estimated investment income, to provide for the estimated future benefits, dividends, commissions and policy maintenance expenses on policies in force. These liabilities are determined using generally accepted actuarial practice, according to standards established by the Canadian Institute of Actuaries (CIA). Their calculation involves the estimation of the occurrence of events, which may or may not happen until many years in the future. The determination of actuarial liabilities includes assumptions, which are described in note 3 to the Consolidated Financial Statements.

The actuarial liabilities constitute those financial statement amounts potentially subject to the highest level of measurement uncertainty as their determination is complex, reflecting the diversity of the underlying products and product features as well as a variety of best estimate assumptions. Because of the risk of mis-estimation in determining the amounts for these liabilities, the best estimate assumptions are adjusted to include margins for adverse deviation, which provide for unfavourable deviations from expected experience. Due to the long-term nature of actuarial liabilities and the incorporation of margins for adverse deviation, a fluctuation in experience compared to any one assumption in the near term would not normally be expected to have a significant effect on the financial results of the Company.

As noted above, the assumptions used in the calculations are based on best estimates. Our position within the range for the margins for adverse deviation depends on the risk profile of the particular line of business. The majority of the Company's business is low risk so that margins at the low end of the range, as prescribed by the CIA guidelines, would often be justifiable. However, we frequently follow a more prudent practice of establishing margins generally close to the middle of the permissible range.

The composition of actuarial liabilities is shown below:

Actuarial liabilities

(in millions of Canadian dollars)	2000		1999	
General fund				
Participating insurance and annuities	**$ 5,215**	**21%**	$ 4,795	20%
Non-participating:				
Annuities	**14,770**	**58**	14,108	60
Individual life and health insurance	**3,441**	**14**	3,055	13
Group life and health insurance	**1,816**	**7**	1,703	7
General Insurance	**–**	**–**	60	–
	20,027	**79**	18,926	80
Total	**$ 25,242**	**100%**	$ 23,721	100%
Segregated funds				
Life	**$ 6,370**	**28%**	$ 6,090	28%
Annuities	**16,013**	**72**	15,785	72
	$ 22,383	**100%**	$ 21,875	100%

A continuity of changes in general fund actuarial liabilities and a summary of the distribution of general fund actuarial liabilities by business segment and by major line of business are included in notes 7(a) and 7(b), respectively, to the Consolidated Financial Statements. Comments on year-over-year changes in actuarial liabilities referred to earlier and as included in the business segment commentary described the factors effecting the year-over-year changes.

CAPITAL MANAGEMENT

CAPITAL

Capital strength is important for the protection of shareholders, policyholders and creditors. Capital strength also ensures that the Company maintains its strong credit ratings and allows us to take advantage of profitable opportunities. A balance is maintained between the mix and level of capital to meet differing objectives. Sufficient capital is needed to meet the requirements of regulators and the expectations of policyholders. However, capital levels that are too high, may lead to poor returns on shareholders' equity. Management must act in a balanced way to ensure that the needs of all stakeholders are met.

The sources of capital are as follows:

Capital

(in millions of Canadian dollars)	2000	1999
Subordinated debentures	$ 550	$ 550
Participating policyholders' equity	44	47
Shareholders' equity:		
Share capital	317	317
Retained earnings	2,790	2,513
Total shareholders' equity	3,107	2,830
Total capital	$ 3,701	$ 3,427
Non-equity capital to capital ratio	14.9%	16.0%

Most of the Company's existing capital has been generated from retained earnings. However, a portion of capital consists of subordinated debt. The ratio of such debt to capital was 14.9% at the end of 2000, well below the level we are targetting. Consideration will be given to issuing additional capital but only to the extent that the total preferred shares and subordinated debt outstanding does not exceed 25% of total capital.

CAPITAL ADEQUACY

The Company is regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI), which requires Canadian insurance companies to maintain minimum levels of capital with respect to their worldwide insurance operations in order to provide additional insurance with respect to future solvency. These minimum levels are calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR) issued by OSFI. The MCCSR formula prescribes the many adjustments that are required to be made to the Company's capital to derive Available Capital for regulatory purposes. For example, goodwill is excluded from Available Capital but deferred realized gains and the Company's $550 million of subordinated debentures are included. The MCCSR formula also prescribes the amounts of Required Capital to be maintained. Required Capital amounts are determined based on the risk characteristics of the underlying assets and liabilities held by the Company. The ratio of Available Capital to Required Capital is the MCCSR ratio.

MCCSR ratio

(in millions of Canadian dollars)	2000	1999
Available capital	$ 3,800	$ 3,388
Required capital	1,845	1,779
Available capital as a percentage of required capital	206%	190%

Our policy is to maintain an MCCSR ratio in the range of 175% to 200%, well in excess of the minimum required level of 150%. At the end of 2000, the Company's ratio grew to 206% from 190% at the end of 1999. The Company's Available Capital grew substantially and was favourably impacted by increased retained earnings. The sales of the property-casualty subsidiary and real estate helped improve the level of Available Capital and reduce the level of Required Capital.

The breakdown of the change in the MCCSR ratio from 1999 to 2000 is as follows:

MCCSR ratio

	%
MCCSR ratio, December 31, 1999	190
Increase due to 2000 operations	14
Increase due to sales of property-casualty subsidiary and real estate	8
Acquisition of payout annuity business	(2)
Net decrease due to changes in OSFI's calculation methods for segregated funds guarantees	(4)
MCCSR ratio, December 31, 2000	206

The Company must also meet the local regulatory minimum capital and solvency requirements of each jurisdiction in which it operates and, as indicated in note 13 to the Consolidated Financial Statements, the Company exceeds these requirements in all of these jurisdictions. We maintain sufficient assets in each jurisdiction to meet both policyholder obligations and local minimum surplus and solvency requirements.

The Company's ability to meet its cash requirements and pay dividends on common shares will depend on the receipt of dividends and other payments from its subsidiary, The Canada Life Assurance Company (Canada Life). Canada Life's insurance subsidiaries and branches are required to maintain solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of the dividends, distributions or other payments that may be made by subsidiaries and branches to Canada Life and to the Company.

Risk Management

A key company objective is to earn a target return to shareholders at an overall acceptable level of risk. There are risks in our many business activities and in order to manage, measure, and monitor these risks, we have established a comprehensive risk management framework. This framework includes identification of the risks specific to our business, risk limits, internal control processes and regular reporting on risks to senior management and to the Board of Directors.

DEFINITION OF RISK AND THE OBJECTIVE AND GUIDING PRINCIPLES FOR RISK MANAGEMENT

Risk is defined as the probability or likelihood that the expected outcome of a plan, a strategy or a course of action does not materialize resulting in the possibility of loss.

The objective of risk management is not to eliminate risk but to do all the things necessary to reduce the level of uncertainty to an acceptable level in order to enhance company value while preserving safety and soundness. Policies and procedures establish the acceptable boundaries for risk taking with mechanisms to measure and monitor risks and to ensure compliance with these policies and procedures. In addition, risk is proactively managed by formulating, properly executing and regularly reviewing risk management strategies designed to reduce the probability of an adverse outcome. People skilled in assessing and managing risk and the availability of timely and accurate information are critical success factors for risk management.

Our guiding principles for risk management are to protect policyholders interests, to preserve and enhance shareholder value and to apply prudence and the appropriate level of conservatism in making business decisions. This requires us to have the optimum balance of risk and reward to ensure value for our stakeholders including, customers/policyholders, shareholders, employees and suppliers. Specific risk management policies and procedures are aligned with other general company policies.

Responsibilities for Risk Management

The responsibility for risk management is shared between the Board of Directors and management. The Board of Directors has overall responsibility for reviewing and approving the risk management policies and procedures recommended by management; and ensuring adherence thereto. Management is responsible for developing appropriate risk management policies, guidelines and strategies and ensuring appropriate procedures and processes are established and followed for the management, measurement, reporting and oversight of risk.

CATEGORIES OF RISK

ASSET/LIABILITY	INSURANCE	OPERATIONS

• Market risk
  • Interest rate risk
  • Capital market, equity, real estate risk
  • Foreign exchange risk
• Credit risk
• Liquidity risk
	• Product design and pricing risk
	• Underwriting and liability risk
		• Operational risk
		• Legal and regulatory risk

The risks that the Company is subject to and brief descriptions of our processes to manage those risks follows.

MARKET RISK

Market risk is the risk that the investment of premiums and capital do not produce the expected returns or suffer losses. This may occur as a result of fluctuations in interest rates (interest rate risk), market volatility affecting the value of investments (capital market, equity, real estate risk) or fluctuations in foreign exchange rates (foreign exchange risk).

Each type of market risk is considered separately as follows:

Interest rate risk is the risk of loss due to changing interest rates if the future cash flows from the assets supporting liabilities do not match the timing and amount of the expected policy payments.

Many of the Company's liabilities involve either contractual or otherwise predictable payments to policyholders. These cash outflows are matched wherever possible, with equally predictable cash inflows from invested assets through a defined asset/liability management process. Interest rate risk is managed through a number of means including the purchase and sale of conventional bonds, interest rate futures, managing cash positions and short selling of treasury bills. The Company maintains separate funds of assets to support associated liabilities by line of business and by country. Each fund has an appropriate matching policy, which requires the level of mismatch to be kept within prescribed limits. This matching policy is a critical element of our investment policy. The matching of assets to liabilities is monitored regularly by a separate internal group dedicated to this purpose.

Proper matching of assets and liabilities is particularly critical for the funds supporting annuity and pension products, which constitute approximately 59% (61% in 1999) of the Company's general fund actuarial liabilities. We measure interest rate risk for annuity and pension products through the use of duration mismatch and interest rate scenario analysis as described in note 4(b) to the Consolidated Financial Statements.

The impact on the net present value (NPV) of the Company's annuity and pension products of a 1% parallel change in interest rates, as at December 31, is shown in the following table:

(in millions of Canadian dollars)		2000		1999
NPV of annuity and pension products	**$**	**394**	$	322
Impact on NPV if interest rate changed +1%		**(56)**		(37)
Impact on NPV if interest rate changed -1%		**50**		31

In addition, the margins for adverse deviations set aside in the actuarial liabilities take account of adverse interest rate movements that are significantly more adverse than the parallel 1% change shown above.

For our life insurance business, the Company guarantees cash surrender values on most of the life insurance products. The Company would be exposed to losses if policyholders surrendered their policies during a period when interest rates were rising significantly. Specified amounts of capital are held to cover this risk as required by MCCSR.

The Company has provided interest rate guarantees on certain annuity and insurance contracts and, as such, is exposed to losses if interest rates fall below certain levels. To cover this risk, we use derivative contracts to hedge some of the exposure, make prudent provisions for these guarantees in the actuarial liabilities and provide capital through adherence to MCCSR.

Capital market, equity, real estate risk is the risk that the value of the portfolio of securities, including derivatives, will decrease as a result of adverse changes in market prices as well as fluctuations in the value of mortgages and real estate holdings.

Market risk is most prevalent for the investments in securities, derivative financial instruments and real estate. The Company's exposure to these investments is managed through established limits relative to the amount of supporting liabilities and shareholders' equity. Holdings are also diversified by industry type, corporate group and different geographic markets.

Foreign exchange risk is the exposure to the potential for losses resulting from adverse movements in foreign exchange rates as a result of currency mismatches between assets and liabilities and the cash flows therefrom.

As a multinational company that manages operations in many currencies and reports its results in Canadian dollars, there is an ongoing exposure to foreign exchange risks. We manage the exposure of the operating funds to this risk by closely matching operating fund assets and liabilities by currency in each country of operation.

The Company also holds assets supporting its equity in the currencies of each jurisdiction in which we operate. This represents an exposure to movements in foreign exchange rates as there are virtually no foreign currency liabilities matching these assets. The amount of assets supporting equity that is denominated in each of these foreign currencies is monitored closely and exposure is managed by hedging a portion of these foreign denominated assets through the use of forward foreign exchange contracts as described below under the Derivative Financial Instrument Management section.

A 1% strengthening of the Canadian dollar relative to the currencies in the foreign jurisdictions in which the Company operates would reduce shareholders' retained earnings by $22 million ($18 million in 1999) and net income by $3 million ($2 million in 1999) after taking into account the effect of any off-balance sheet derivative financial instruments that the Company has entered into for purposes of hedging against adverse changes in foreign exchange rates.

CREDIT RISK

Credit risk is the risk that debtors, counterparties or intermediaries are unable or unwilling to fulfil their obligations and includes the risk associated with the concentration of investment holdings in specific jurisdictions, industries or investees.

We have established investment policies, with an objective to maintain a well-diversified portfolio of relatively high overall quality. This objective is accomplished by setting standards relating to the quality of assets and limits on the concentration of credit risk by issuer, ratings, industry sector and geographic location.

Minimum limits have been set for bond and mortgage portfolio qualities. Weighted average rating minimums of A and BBB- as defined by Standard & Poor's have been set for the bond and mortgage portfolios, respectively. The combined credit quality of all credit instruments, including the credit equivalent exposure to derivatives, is required to be at least A-. In addition, our investment policy limits the permitted proportion of high yield/lower rated bonds in each jurisdiction to a maximum of 8% of the carrying value of that jurisdiction's bonds and mortgages with a consolidated maximum of 5% of total bonds and mortgages.

Our investment policy relating to concentration of credit risk is to generally have the same level of country credit exposure, relative to combined liabilities and surplus, in each of the jurisdictions in which the Company operates. Various limits have also been established for percentages of mortgages, bonds and other loans that can be held by property type or by industry group. In addition,

it is our policy that non-government insured mortgages will not exceed 50% of all lending and that loans of whatever type secured by real estate will not exceed 60% of all loans made by the Company. Finally, we have an overall corporate concentration limit on its combined lending and equity positions in any one group of closely related corporate entities to 25% of the Company's equity.

While reinsurance is used to manage Underwriting and Liability Risk, the use of reinsurance does not relieve the Company of its primary obligations to its policyholders. Therefore, the Company is exposed to credit risk with respect to amounts ceded to reinsurers. In order to minimize the exposure to this risk, the Company generally only enters into reinsurance contracts with properly licensed, well-established and financially strong companies or ensures it has sufficient security arrangements in place.

LIQUIDITY RISK

Liquidity risk is the risk that there are insufficient funds available to honour all anticipated cash flow commitments (both on and off balance sheet) as they fall due and from unanticipated cash demands.

There are two types of liquidity, which may be required under various circumstances:

- operating liquidity is that which is required to meet day-to-day cash outflow obligations such as the payment of dividends, claims and expenses; and
- strategic liquidity is that which is required to meet long-term obligations or to withstand unanticipated cash demands under adverse conditions such as substantial surrenders or major investment defaults.

We manage liquidity risk by closely matching the amount, currency and duration of asset and associated liability cash flows within preset limits.The level of this mismatch is regularly monitored and includes the effect of all outstanding derivative financial instrument positions.

Our policy is to maintain immediate liquidity at not less than 5% of total invested assets and marketable asset liquidity at not less than 20% in each country of operation. Liquidity currently exceeds the amounts required by either measure. Immediate liquidity is comprised of cash, bank deposits, approved short-term paper, committed bank lines and marketable central government securities of each jurisdiction in which the Company operates. Marketable asset liquidity is comprised of the above items as well as marketable securities of lower levels and agencies of each of these jurisdictions' governments, marketable public corporate bonds and government insured mortgages in Canada and the United States.

DERIVATIVE FINANCIAL INSTRUMENT MANAGEMENT

Derivative financial instruments are financial contracts that derive their value from the value of the underlying financial assets, interest rates, foreign exchange rates or stock/bond/commodity indices. The increased volatility and complexity of the financial markets over the last two decades has led to increased risk levels because of exposures to fluctuations in credit, interest rates, equity prices and foreign exchange rates. These increased risk levels have necessitated the development of a sophisticated, diverse, cost effective and liquid derivative market that derives its values from the changes in the values of the underlying financial assets, interest rates, foreign exchange rates or stock/bond indices. Derivatives include Financial Futures, Forwards, Options and Swaps, or any combination thereof. The Company is a limited end-user of derivatives and is not a creator or dealer in these instruments. We use derivative instruments for both hedging and non-hedging purposes as follows:

- **asset liability management -** where we are able to modify a particular asset position or a portfolio profile to reflect liability characteristics within established policy limits;

- **interest rate management –** where we hedge the Company's exposure to the volatility in interest rates due to its positions in interest bearing instruments;
- **equity market price management -** where we hedge the Company's exposure to the volatility in stock market indices due either to its own equity positions or those relating to the terms of products the Company has sold;
- **foreign currency exchange management -** where we hedge or manage the Company's exposure to foreign exchange volatility with respect to both its investment in foreign jurisdictions and the translation of its foreign operating results into Canadian dollars; and
- **investment management –** where we replicate synthetically the investment in a type of asset when it is deemed to be more effective from a cost and flexibility perspective than directly investing in that type of asset.

Derivatives are subject to Board approved investment policies. Those policies relating to financial futures limit the duration-adjusted notional amount to 10% of total general fund assets and address interest rate and foreign currency risks. The policies relating to forwards, options and swaps set various percentage limits for potential exposures or statement values to general fund assets and address credit risk. In addition, we are only permitted to deal with counter-parties with a credit rating of A+ or higher as defined by Standard & Poor's. The Company had a $3,866 million notional amount of outstanding derivative financial instruments at December 31, 2000 ($4,244 million in 1999) and a credit risk equivalent amount of $179 million ($236 million in 1999). Notional amounts by term and by category and associated credit risk exposures are described in note 18 to the Consolidated Financial Statements.

INSURANCE RISKS

Insurance risks comprise the exposure to financial loss from transacting insurance and/or annuity business where the costs and liabilities assumed in respect of a product exceed the expectation in the product design and pricing for that product, as well as the exposure to financial loss resulting from the selection and approval of risks to be insured, the reduction, retention and transfer of risk, the reserving and adjudication of claims and the management of contractual and non-contractual product options.

Product design and pricing risk is the risk that the price levied for a product, service and/or block of insurance products is insufficient to ensure an adequate return on capital and includes the risk of poorly designed products due to insufficient market research or the impact that a new product introduction will have on the sale of existing or other new products.

The process of pricing products includes the estimation of many factors including future investment yields, mortality and morbidity experience, expenses, policy lapse rates and taxes. Pricing risk is the risk that actual experience in the future will not develop as estimated at the time of pricing the products. Some products are designed such that adjustments to premiums or benefits can be made for variations in experience, while for other products no such adjustment is possible.

We manage pricing risk by setting standards and guidelines for pricing. These standards and guidelines cover pricing methods, the setting of assumptions, profit margin objectives, required scenario analysis and documentation. Pricing assumptions are compared against actual experience on an ongoing basis. Senior financial managers in each operating division are responsible for ensuring that the design and pricing of each new product, and revisions to assumptions for existing products, are consistent with our standards and guidelines.

Entry into new lines of business, unusual risks not currently offered, or deviations from pricing policy are subject to prior approval of both the Company's Appointed Actuary and each divisional leader. In these instances, reinsurance may also be used to effectively manage the risk.

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the adjudication of claims, and the management of contractual and non-contractual product options. This includes unfavourable mortality, morbidity, surrender or lapse experience or unfavourable interest rates as it relates to actuarial liabilities.

Our philosophy with respect to underwriting is to prudently manage the risks with due consideration given to our expertise, our ability to absorb losses and expected returns. For existing products, where we have considerable expertise in both underwriting and claims, we will generally manage the risk internally. Where existing products have significant loss exposure, some form of excess loss reinsurance will generally be put in place. For newer product areas in which we have little experience in underwriting and claims, additional reinsurance and the advice of industry experts will generally be sought. It is our policy in underwriting cases to avoid excessive exposure with respect to any specific risk profile. In general, we avoid concentration by operating internationally and underwriting a wide range of cases and products within each jurisdiction.

In addition to establishing appropriate underwriting criteria to determine the insurability of applicants, we manage our insurance risk by limiting our exposure to life and health claims. These limits are described in note 4(f) to the Consolidated Financial Statements. To ensure that these limits continue to be appropriate, management and the Board of Directors periodically review the policies relating to the maximum risks to be assumed.

OPERATIONAL RISK

Operational risk is the risk that arises from problems in the performance of business functions or processes and can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty and natural disasters.

We have created procedures to ensure that appropriate and effective internal controls are developed and implemented to manage operational risks, and that reliable and comprehensive systems are in place to properly monitor the effectiveness of these controls on a regular basis. The management team actively manages operations and has implemented organizational and procedural controls supported by information systems to manage exposure to risk. An independent internal audit function, reporting to the Audit and Risk Management Committee of the Board, monitors the effectiveness of these organizational and procedural controls, including compliance with OSFI's Standards of Sound Business and Financial Practices and the Quebec Guideline for Sound Risk Governance.

Legal and regulatory risk arises as a result of non-conformance with laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which a company operates as well as the risk of loss resulting from a business or proposed business arrangement.

The risk of loss, including potential penalties for non-compliance with regulatory requirements includes such things as market conduct and compliance with insurance and securities legislation. It also includes data privacy risk relating to the disclosure of confidential or proprietary data to inappropriate parties. To manage this risk, we have a Chief Compliance Officer and divisional compliance functions in place. The Chief Compliance Officer reports regularly to the Board of Directors. Policies and monitoring procedures are in place.

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The Euro was introduced in eleven participating European countries on January 1, 1999. The Republic of Ireland is a participant while the United Kingdom is not. The value of the Euro was created January 1, 1999 by irrevocably fixing the conversion rates of Euro Zone currencies. Over the next year, the Euro will continue to be used only for transactions between European central banks and in financial markets. The currency will be introduced into general circulation on January 1, 2002, at which time national currencies and the Euro will co-exist for approximately two months, and subsequently the Euro will become the only currency in use.

All companies operating in the Euro Zone or holding securities in the Euro Zone will be affected by the introduction of the Euro. Our processing of data in the United Kingdom and the Republic of Ireland could be in jeopardy if software and hardware modifications are not made on a timely and accurate basis. We have implemented the necessary changes to the investment and financial systems software in order to be able to translate all other currencies into the Euro. Euro-denominated bank accounts are established and work is underway on the changes required to the policy processing systems for January 1, 2002. The costs of the modifications to existing systems have been immaterial to date.

Consolidated Financial Statements

The Consolidated Financial Statements of Canada Life Financial Corporation (CLF) and its principal subsidiary, The Canada Life Assurance Company (CLA), as well as all the information in this annual report, are the responsibility of management. The Consolidated Financial Statements for each Company have been reviewed by the respective Audit and Risk Management Committee and approved by the Board of Directors of each Company.

The Consolidated Financial Statements for each of CLF and CLA have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI). The Consolidated Financial Statements contain some items that reflect management's best estimates and judgements. Where alternative accounting methods exist, management has chosen those deemed most appropriate in the circumstances to ensure the Consolidated Financial Statements are presented fairly, in all material respects. Moreover, management has ensured that all financial information in this annual report is consistent with that in the Consolidated Financial Statements.

CLF and CLA maintain systems of internal accounting and administrative controls in accordance with OSFI's Standards of Sound Business and Financial Practices and the Quebec Guideline for Sound Risk Governance. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and forms a proper basis for the preparation of the Consolidated Financial Statements. The Companies' internal audit department assesses the systems of internal control on an ongoing basis.

The Board of Directors of each Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing the Consolidated Financial Statements of CLF and CLA, respectively. The Board of each Company carries out this responsibility principally through its Audit and Risk Management Committee of independent Directors. The Audit and Risk Management Committees meet periodically with management and the internal and external auditors to discuss auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements and the reports of the external auditors and the Appointed Actuary.

The Appointed Actuary is appointed by the Board of Directors of each Company and is required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form the opinion. The Appointed Actuary makes use of the external auditors' work to attest to the accuracy of the policy data used in the valuation. The Appointed Actuary is required each year to analyze the financial condition of each Company and to prepare a report for each Board of Directors. For 2000, this analysis tested the capital adequacy of each Company until December 31, 2004 under adverse economic and business conditions.

Ernst & Young LLP have been appointed the external auditors for CLF and CLA. It is the external auditors' responsibility to report to the shareholders of CLF and to the policyholders, shareholder and the Board of Directors of CLA on the fairness of presentation of each Company's Consolidated Financial Statements. The external auditors make use of the Appointed Actuary's work in their audit of each Company. The Auditors' Reports for each Company outline the scope of their audit and their opinion. The external auditors have full and unrestricted access to the Audit and Risk Management Committees of each Company.

February 6, 2001

D. A. Nield

D. A. Nield

Chairman of the Board,
President and Chief Executive Officer

P. G. Crowley

P. G. Crowley

Executive Vice-President
and Chief Financial Officer

Canada Life Financial Corporation

Consolidated Financial Statements and Notes

TO THE POLICYHOLDERS, SHAREHOLDERS AND DIRECTORS
OF CANADA LIFE FINANCIAL CORPORATION:

I have valued the policy liabilities of Canada Life Financial Corporation for its Consolidated Balance Sheet as at December 31, 2000 and their change in its Consolidated Statement of Net Income and the Consolidated Statement of Equity for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the Consolidated Financial Statements fairly present the results of the valuation.

Toronto, Canada
February 6, 2001

D. A. Loney
Fellow, Canadian Institute of Actuaries

TO THE SHAREHOLDERS OF CANADA LIFE FINANCIAL CORPORATION:

We have audited the Consolidated Balance Sheets of Canada Life Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2000 and 1999 and the Consolidated Statements of Net Income, Equity, Cash Flows, and Changes in Segregated Funds for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company and of the segregated funds as at December 31, 2000 and 1999 and the results of its operations and its cash flows and changes in segregated funds for the years then ended in accordance with accounting principles generally accepted in Canada including the accounting requirements of the Superintendent of Financial Institutions Canada.

Toronto, Canada
February 6, 2001

Ernst & Young LLP
Chartered Accountants

For the year ended December 31 *(in millions of Canadian dollars)*	2000	1999
REVENUES		
Premium income		
Participating insurance and annuities	$ 786	$ 831
Non-participating:		
Annuities	1,548	1,769
Individual life and health insurance	674	625
Group life and health insurance	1,391	1,277
Reinsurance	153	202
General insurance	124	117
	4,676	4,821
Net investment income *(note 6(c))*	2,306	2,321
Fee and other income *(notes 2(l) and 5(a))*	484	393
	7,466	7,535
EXPENDITURES		
Payments to policyholders and beneficiaries		
Life, health and general benefits	1,670	1,560
Annuity payments	1,128	1,032
Maturities, surrender payments and other	1,837	1,872
Participating policyholder dividends	289	286
	4,924	4,750
Increase in actuarial liabilities *(note 7(a))*	672	1,133
Commissions	341	344
General expenses	811	723
Premium taxes	63	57
Interest expense *(note 8)*	39	42
	6,850	7,049
Net income before income taxes and goodwill expense	616	486
Income taxes *(note 9)*	211	128
Net income before goodwill expense	405	358
Goodwill expense *(notes 2(j) and 9(d))*	24	38
Net income	381	320
Participating policyholders' net loss	(4)	(1)
Shareholders' net income *(note 14(a))*	$ 385	$ 321
Earnings per share excluding goodwill expense *(note 12)*	$ 2.55	$ 2.24
Earnings per share *(note 12)*	$ 2.40	$ 2.00

(see accompanying notes)

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As at December 31 *(in millions of Canadian dollars)*	2000	1999
ASSETS		
General fund		
Invested assets *(note 6(a))*		
Bonds	$ 17,681	$ 16,400
Mortgages	7,583	7,117
Common and preferred stocks	2,002	1,868
Real estate	851	974
Policy loans	988	942
Short-term investments	373	119
Cash and cash equivalents *(note 2(m))*	1,051	914
Other	594	673
Total invested assets	31,123	29,007
Premiums receivable	160	203
Investment income due and accrued	388	363
Goodwill *(note 2(j))*	151	173
Other assets *(note 9(c))*	890	982
Total general fund	$ 32,712	$ 30,728
Segregated funds	$ 22,383	$ 21,875
LIABILITIES AND EQUITY		
General fund		
Policy liabilities		
Actuarial liabilities *(notes 3 and 7)*	$ 25,242	$ 23,721
Benefits payable and provision for unreported claims	449	561
Policyholders' amounts left on deposit	428	441
Provision for future policyholder dividends and experience rating refunds	328	330
Total policy liabilities	26,447	25,053
Net deferred gains *(note 6(d))*	1,543	1,326
Other liabilities *(note 10)*	1,021	922
	29,011	27,301
Subordinated debentures *(note 8)*	550	550
Equity		
Participating policyholders' equity	44	47
Shareholders' equity		
Share capital *(note 11)*	317	317
Retained earnings	2,790	2,513
	3,151	2,877
Total general fund	$ 32,712	$ 30,728
Segregated funds	$ 22,383	$ 21,875

(see accompanying notes)

On behalf of the Board:

D. A. Nield
Chairman of the Board,
President and Chief Executive Officer

T. Iain Ronald
Chairman of the Audit and
Risk Management Committee

Consolidated Statement of Equity

For the year ended December 31 *(in millions of Canadian dollars)*	2000				1999
	Participating policyholders' equity	Shareholders' retained earnings	Share capital	Total	Total
Balance, beginning of year	$ 49	$ 2,571	$ 317	$ 2,937	$ 2,599
Demutualization and initial public offering costs, net of tax	–	–	–	–	(65)
Net income prior to demutualization *(note 14(a))*	–	–	–	–	249
Balance, at demutualization	–	–	–	–	2,783
Distributions from policyholders' surplus to participating policyholders at demutualization *(note 14)*	–	–	–	–	(234)
Issue of common shares *(notes 11 and 14)*	–	–	–	–	317
Net income (loss) subsequent to demutualization *(note 14(a))*	(4)	385	–	381	71
Dividends paid to shareholders	–	(77)	–	(77)	–
Balance, end of year	$ 45	$ 2,879	$ 317	$ 3,241	$ 2,937
Currency translation account					
Balance, beginning of year	$ (2)	$ (58)	$ –	$ (60)	$ 95
Change prior to demutualization	–	–	–	–	(92)
Balance, at demutualization	–	–	–	–	3
Change subsequent to demutualization	1	(31)	–	(30)	(63)
Balance, end of year	$ (1)	$ (89)	$ –	$ (90)	$ (60)
Total equity	$ 44	$ 2,790	$ 317	$ 3,151	$ 2,877

(see accompanying notes)

For the year ended December 31 *(in millions of Canadian dollars)*	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 381	$ 320
Items not affecting cash and cash equivalents		
Increase in actuarial liabilities and other policy liabilities	673	1,150
Amortization of net deferred gains and amortization of net discounts on bonds and mortgages	(336)	(352)
Other, including future income taxes	70	33
	788	1,151
Net change in other operating assets and liabilities		
Other assets	16	12
Other liabilities	(22)	(290)
	(6)	(278)
Increase due to operating activities	782	873
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales, maturities and scheduled redemptions of:		
Bonds	9,836	19,730
Mortgages	3,460	3,811
Common and preferred stocks	1,223	2,542
Real estate	394	111
Other investments	174	431
Purchases and issues of:		
Bonds	(10,384)	(20,788)
Mortgages	(3,781)	(3,949)
Common and preferred stocks	(1,116)	(2,590)
Real estate	(156)	(104)
Other investments	(105)	(284)
Short-term investments	(251)	94
Policy loans	(27)	(5)
Acquisition *(notes 5(c) and 5(d))*		
Purchase price	–	(163)
Cash and cash equivalents	176	252
Decrease due to investing activities	(557)	(912)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank loans and mortgages on real estate	(3)	(38)
Dividends paid to common shareholders	(77)	–
Payment to participating policyholders at demutualization	–	(234)
Issue of common shares *(notes 11 and 14)*	–	317
Demutualization and initial public offering costs prior to income tax provisions	–	(83)
Decrease due to financing activities	(80)	(38)
Effect of changes in exchange rates on cash and cash equivalents	(8)	(58)
Net increase (decrease) in cash and cash equivalents for the year	137	(135)
Cash and cash equivalents, beginning of year	914	1,049
Cash and cash equivalents, end of year	$ 1,051	$ 914
Supplementary disclosure of cash flow information:		
Interest paid on subordinated debentures and other liabilities	$ 39	$ 42
Income taxes paid, net of refunds	$ 97	$ 182

(see accompanying notes)

For the year ended December 31 *(in millions of Canadian dollars)*	2000	1999
ADDITIONS TO SEGREGATED FUNDS		
Premiums and transfers from the general fund	$ 3,692	$ 2,737
Net investment income	636	579
Acquisition of segregated fund business	–	767
Net (decrease) increase in fair value of investments	(488)	3,147
	3,840	7,230
DEDUCTIONS FROM SEGREGATED FUNDS		
Withdrawals, benefit payments and transfers to the general fund	2,690	2,212
Operating expenses	369	345
Tax (recovery) provision	(28)	117
Currency translation adjustment	301	1,353
	3,332	4,027
Net additions to segregated funds for the year	508	3,203
Segregated funds, beginning of year	21,875	18,672
Segregated funds, end of year	$ 22,383	$ 21,875

(see accompanying notes)

As at December 31 *(in millions of Canadian dollars)*	2000	1999
Bonds	$ 2,445	$ 2,277
Mortgages	8	1
Common and preferred stocks	18,247	17,921
Real estate	747	666
Cash and short-term investments	1,211	1,384
Investment income due and accrued	40	53
Tax liability	(63)	(296)
Due to brokers and others	(252)	(131)
	$ 22,383	$ 21,875

(see accompanying notes)

1. NATURE OF OPERATIONS

Canada Life Financial Corporation ("the Company") was incorporated on June 21, 1999 and was formed for the purpose of becoming a publicly traded holding company of The Canada Life Assurance Company ("Canada Life"), which demutualized on November 4, 1999. The assets, liabilities, equity and results of operations included in these Consolidated Financial Statements prior to the date the Company was incorporated are those of Canada Life as previously reported. See note 14 for a description of further changes as a result of demutualization.

Through its wholly-owned subsidiary, Canada Life, the Company offers insurance and other protection and wealth management products and services to individuals and groups, including reinsurance services, primarily in Canada, the United Kingdom, the United States and the Republic of Ireland; and in several other jurisdictions including Hong Kong, Macau, Bermuda, Bahamas, Brazil and Germany. In addition, Canada Life offers unit trusts (comparable to mutual funds) in the United Kingdom.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (GAAP) for life insurance enterprises, including the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI). There are no differences between GAAP and OSFI accounting requirements. See note 20 for a description and reconciliation of differences between GAAP in Canada and the United States.

The significant accounting policies followed in the preparation of these Consolidated Financial Statements are summarized below.

(a) Basis of consolidation

These financial statements consolidate the operating results and financial position of the Company and its subsidiaries.

(b) Valuation of invested assets held for the general fund

(i) Bonds and mortgages

Bonds, including asset-backed fixed term securities, and mortgages are carried at amortized cost.

The difference between the proceeds on the sale of a bond or mortgage prior to maturity and its carrying value is considered to be an adjustment of future portfolio yield. This difference is deferred on the Consolidated Balance Sheet and amortized to net income over the remaining term to maturity.

(ii) Stocks and real estate

Portfolio investments in stocks and real estate, which include Company-occupied premises, are carried at a value, that is adjusted toward fair value each year. The adjustment for stocks is 15% per annum of the difference between carrying value and year-end fair value. The fair value adjustment for real estate is 10% per annum of the difference between carrying value and appraised value. Appraised value is determined annually based on a combination of internal appraisals established by the Company and independent appraisals. All real estate properties are independently appraised at least once every three years.

Net realized gains and losses on the disposal of stocks and real estate are deferred on the Consolidated Balance Sheet and are amortized to net income on a declining balance basis at 15% per annum for stocks and at 10% per annum for real estate.

(iii) Policy loans

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(iv) Other invested assets

Other invested assets generally include the Company's investment in equipment leases, limited partnerships, and equity investments in which the Company has the ability to exercise significant influence. Equipment leases are carried at cost less accumulated depreciation. Equity investments and limited partnerships are carried at cost plus the Company's pro rata share of the investees' net income (loss), less any distributions paid to the Company during the year.

(v) Impaired investments and provisions for losses

Impaired investments include all loans with payments of 90 days or more in arrears unless their repayment has been insured by a

government authority or representative thereof. Impaired investments also include loans, which are not in arrears but where management has determined that an impairment in value exists.

The carrying value of the Company's investment in a bond or mortgage is reduced by a specific provision for loss to the extent an impairment in value is deemed to exist. A specific provision for loss is established whenever there is a decline in the value of a bond, which is other than temporary, or when the recovery of the principal and accrued interest on a mortgage is in doubt and the value of the underlying security is also impaired. A specific provision for loss is only reduced as a result of a write-off or sale of the impaired investment, or if the conditions that caused the impairment no longer exist. Accrual of interest is discontinued and previously accrued interest is reversed on impaired bonds and impaired mortgages where payments are 90 days or more in arrears.

Property that is acquired due to a mortgage foreclosure and held for resale is classified as real estate and is valued at the lower of the amortized cost of the mortgage at the time of foreclosure and net realizable value of the property. Any losses on foreclosure and subsequent adjustments to net realizable value are recognized in net income immediately.

The carrying value of the stock portfolio or the real estate portfolio is written down to fair value immediately if there is other than a temporary decline in the value of either portfolio. The Company treats the stock and real estate portfolios as separate portfolios for the purpose of assessing whether permanent impairment exists.

In addition to specific provisions noted above for existing asset impairments, the Company provides for potential future asset defaults through the reduction of the assumed investment yields used in the calculation of the actuarial liabilities as disclosed in note 3(a) and as required by the Canadian Institute of Actuaries (CIA) and OSFI.

(c) Fair value

(i) Bonds and mortgages

Fair value of publicly traded bonds and asset-backed fixed term securities is determined using quoted market prices. The fair value of bonds and mortgages that are not publicly traded is determined by discounting the expected future cash flows related to these loans at market interest rates.

(ii) Common and preferred stocks

Fair value of common and preferred stocks is determined using quoted market prices. The fair value of common and preferred stocks that are not publicly traded is determined by discounting expected future cash flows at risk-adjusted rates of return.

(iii) Real estate

The fair value of real estate is determined based on the appraised value as described in note 2(b)(ii).

(iv) Other invested assets and policy loans

The fair value is generally estimated to equal carrying value for other invested assets and policy loans.

(v) Subordinated debentures

The fair value of the Company's subordinated debentures is determined based on the value in the market for equivalently rated securities of similar term.

(d) Segregated funds

The Company manages certain funds, which are segregated from the general fund of the Company. This business includes Canadian segregated annuity funds; unit-linked life insurance and annuity business in the United Kingdom and the Republic of Ireland; and variable annuity separate account business in the United States. The net assets of these funds are carried at fair value, and a corresponding amount is reported as a liability.

(e) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars using the rates of exchange in effect at the balance sheet date, and revenues and expenditures are translated into Canadian dollars at average rates of exchange during the year.

The Company's Currency Translation Account arises from the translation of its self-sustaining foreign operations. Unrealized foreign currency gains and losses arising on the translation of the accounts of the Company's foreign operations and on forward foreign exchange agreements, which are used as a hedge of the exposure of the Company's investments in foreign operations, are recorded as a direct adjustment to the Currency Translation Account, which is a separate component of equity on the Consolidated Statement of Equity.

(f) Income taxes

The Company uses the liability method of tax allocation. Future income tax assets and liabilities reflect the net tax effects of temporary differences between assets and liabilities reported for financial statement purposes and those reported for income tax purposes.

(g) Employee future benefit liabilities

The Company maintains defined benefit pension plans and provides other post-retirement benefits such as post-retirement life, health and dental insurance benefits for its employees and agents. The assets supporting the trusteed pension plans of the Company are held in separate trusteed pension funds. The remaining benefits are included in other liabilities and are supported by general fund assets of the Company.

Pension and other post-retirement benefit costs for the year are based on the estimated benefits earned by the employees and agents during the year. Pension plan surplus or deficit changes in assumptions and plan amendments, as well as experience gains and losses on post-retirement benefits, are amortized to income over the expected average remaining service life of plan members.

On January 1, 2000, the Company adopted, on a prospective basis, the new recommendations issued by the Canadian Institute of Chartered Accountants (CICA) on accounting for Employee Future Benefits. The measurement of the obligations for Employee Future Benefits, both before and after January 1, 2000, are generally consistent with two major exceptions. Under the new policy, the accrued benefit obligation for 2000 and on will be determined using a market rate of interest. Previously, a long term interest rate was used. Additionally, experience gains and losses on post-retirement benefits will be amortized into income in future periods. In the past, these gains and losses were included in income in the year in which they occurred. The effect of these changes on current period net income and other liabilities was considered to be immaterial.

(h) Derivative financial instruments

The Company utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Gains and losses resulting from these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.

(i) Reinsurance

The Company's premium income, payments to policyholders and beneficiaries, actuarial liabilities and increase in actuarial liabilities are all shown net of amounts ceded to, or including amounts assumed from, other insurers.

(j) Goodwill

Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. Goodwill is generally amortized to income on a straight-line basis over 10 years.

Management annually assesses the recoverability of unamortized goodwill. Unamortized goodwill that is attributed to economies of scale to be realized on the integration of businesses acquired is charged to income to the extent it is no longer recoverable from the expected future unrealized benefit of such economies of scale. On this basis, unamortized goodwill attributed to economies of scale is charged to income immediately when the economies of scale are either recognized in the valuation of the liabilities or are no longer expected to occur. The recoverability of other goodwill is assessed based on discounted future cash flow projections (not including future economies of scale) from the businesses acquired.

(k) Gross premiums

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

(l) Fee and other income

Fee and other income primarily includes fees earned from the management of the Company's segregated fund assets and fees earned from investment management services provided by subsidiary companies.

(m) Cash and cash equivalents

Cash equivalents consist of investments with original maturities at acquisition of three months or less.

(n) Short-term investments

Short-term investments consist of investments with original

maturities at acquisition exceeding three months, but less than twelve months.

(o) Stock option plan

The Company has adopted a stock option plan ("the Plan") effective February 8, 2000. No compensation expense is recognized for the Plan when shares or share options are issued. Any consideration received by the Company on the exercise of options is credited to share capital. Any consideration paid by the Company on the exercise of rights attached to the options is charged to retained earnings. If options are repurchased, the excess of the consideration paid over the strike price of the stock options cancelled is charged to retained earnings net of tax. See note 11(b)(iii) for a description of activity in the Plan for the year ended December 31, 2000.

(p) Change in accounting policy

In addition to the change in accounting policy for employee future benefits liabilities referred to in note 2(g), effective January 1, 2000, the Company changed its accounting for computer software acquisition and development costs. The Company now capitalizes and amortizes these costs over a period not exceeding 5 years for those project costs that meet specific criteria. In prior years, the Company charged these costs to net income. The effect on prior periods' net income and assets was not material.

3. SIGNIFICANT ACTUARIAL POLICIES

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions and policy maintenance expenses for all insurance and annuity policies in force with the Company. In addition, CICA Accounting Guideline 9 requires that the determination of the actuarial liabilities include the discounting effect of future income taxes relating directly to items included in the computation of these liabilities. The Company's Appointed Actuary is responsible for determining the amount of the actuarial liabilities such that sufficient funds will be available in the future to meet the Company's obligations. The valuation methods used by the Appointed Actuary are determined using generally accepted actuarial practices, according to standards established by the CIA.

The process of determining actuarial liabilities involves the estimation of the occurrence of events, which may or may not happen until many years in the future. The risks of misestimation vary in proportion to the length of the estimation period and the potential volatility of each assumption. Because of this, the setting of assumptions for these events is critical.

The Company's valuation methods involve the use of best estimates for the following assumptions: investment yields including asset defaults, mortality, morbidity, expenses, policyholder dividends, and policy lapses and surrenders. Actual experience is monitored against these assumptions to ensure that they remain reasonable. Any change in assumptions will cause a corresponding change in actuarial liabilities, which is recognized in income immediately.

Because of the uncertainties involved in this process, best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. These margins increase actuarial liabilities and reduce the net income that otherwise would be recognized at the inception of a policy. Over time, actual experience will determine the adequacy of these margins and any excess margins will be released, resulting in an immediate decrease in actuarial liabilities and an increase in net income in that year.

The following is a description of the methods used to calculate the best estimates for the significant assumptions and the margins for adverse deviations used in the actuarial valuation process.

(a) Investment yields

The Company maintains specific funds of assets to back each major line of business in each country. The amount and timing of the cash flows relating to both the assets and actuarial liabilities in these funds are matched within predetermined limits, thereby reducing the uncertainty in selecting the valuation investment yields used in calculating the actuarial liabilities.

Assets in annuity funds consist primarily of bonds and mortgages. The investment yields used to value annuity liabilities are set based on studies of cash flows of both assets and liabilities under a number of economic scenarios. The scenarios include rapid increases or decreases in interest rates as well as changing

patterns of these rates. Asset cash flows are reduced by expected future asset defaults, prepayments and expenses. Liability cash flows estimate policyholder actions that might arise as a result of changes in interest rates. The investment yields chosen for valuing annuities are generally based on the most adverse scenario tested.

For participating life insurance business, the valuation investment yields are based on the yields required to support the current dividend scales, with adjustments to allow for time lags in adjusting dividend rates, and deductions to allow for future asset defaults, investment expenses and taxes payable on investment income. For non-participating insurance business, the valuation investment yields are based on the gross yield of supporting assets and an assumption of a declining reinvestment interest rate environment, with deductions to allow for future asset defaults, investment expenses and taxes payable on investment income.

(b) Mortality

Mortality relates to the incidence of death. For life insurance, the Company conducts annual mortality studies for each country and line of business. The Company's assumptions are derived by expressing its own average experience over the last five years as a percentage of the most recent industry experience tables.

For major payout annuity blocks of business, the Company conducts annual mortality studies and the rates used are based on an average experience over the last five years. In the case of smaller blocks of annuity business where the experience is too small to be reliable, inter-company pension experience tables are used. Suitable projection factors reflecting industry experience are used in all cases to allow for the improving mortality trends.

(c) Morbidity

For people who are currently not disabled, the rate of morbidity refers to the incidence of sickness and accidents. The morbidity assumptions for individual policies are based on recent internal studies translated into various factors applied to standard industry morbidity tables. For group policies, the premium can be changed each year due to changing claims experience and, therefore, the liability is set equal to a portion of the premiums paid in advance.

For people who are disabled, the rate of morbidity refers to the termination of disability due to death or recovery. The termination assumptions are based on recent internal studies and translated into factors applied to standard industry tables.

(d) Expenses

Actuarial liabilities include amounts to provide for the costs of administering policies in force such as the cost of collecting premiums, processing and adjudicating claims, periodic communications with policyholders, related indirect expenses and a share of overhead costs. Allowances for expenses are based on the Company's most recent internal cost analysis, with adjustments to the current valuation year. The internal cost analysis is reviewed and updated annually. These expenses are projected into the future with allowances for inflation.

(e) Policyholder dividends

Policy liabilities include the present value of the estimated future payments of participating policyholder dividends including terminal bonus dividends for the United Kingdom and the Republic of Ireland. Dividends paid to participating policyholders are calculated in accordance with the dividend policy established by the Board of Directors.

(f) Policy lapses and surrenders

Although a policy contract may call for the payment of premiums over the full term of the policy, policyholders may choose not to continue to pay premiums, thereby allowing their policy to lapse. Policyholders may also choose to surrender their policy in return for the policy's cash surrender value. Policy termination rate assumptions are based on the Company's recent experience by country and line of business. For certain products, the actuarial liability decreases as policy termination rates increase. On such products, very low policy termination rates are assumed in establishing the liabilities.

(g) Margins for adverse deviations

As noted above, all assumptions used in the calculation of actuarial liabilities are based on best estimates. In addition, margins for adverse deviations are included in assumptions used in the actuarial valuation process. The range for these margins is prescribed in guidelines issued by the CIA. The Company's position within the range depends on the risk profile of the particular line of business. The majority of the Company's business is low risk, so that margins at the low end of the range, as prescribed by the CIA guidelines, are often justifiable. However, the Company often follows a more prudent practice of establishing margins generally close to the middle of the permissible range.

4. MEASUREMENT UNCERTAINTY AND RISKS

(a) Measurement uncertainty

Measurement uncertainty relates to the uncertainty in the determination of the amount at which an item is recognized in the Consolidated Financial Statements. As described in note 3, determination of the actuarial liabilities is complex, making these amounts potentially subject to the highest level of measurement uncertainty for the Company. Their valuation varies depending on the nature of the underlying products and on the variety of assumptions used for investment yields, mortality, morbidity, expenses, policyholder dividends, and policy lapses and surrenders. Given the long-term nature of actuarial liabilities and the incorporation of margins for adverse deviation into the assumptions used, a fluctuation in actual experience compared to any one assumption in the near term would generally not be expected to have a significant effect on the financial results.

Changes in these assumptions, which have had a significant impact on the calculation of the actuarial liabilities in 2000, have been described in note 7(a). With respect to the remaining assumptions, either the impact on the actuarial liabilities was relatively minor, or no change in the assumption was required because the actual experience was generally in line with the assumption used.

(b) Interest rate risk

Interest rate risk is the risk that the economic value of the Company is adversely impacted by changes in interest rates. As interest rates change, the economic value of the Company's fixed interest assets and liabilities changes. For a perfectly matched portfolio of assets and liabilities, the change in the economic value of assets is offset by the change in the economic value of liabilities and the economic value of the Company is not affected. The degree of interest rate risk is measured by the mismatch between the assets and the liabilities of the Company. The maximum degree of mismatch permitted is set out in the Company's Investment Policy as approved by the Board of Directors.

The interest rate risk associated with the Company's annuity and pension products is of particular importance because these products constitute approximately 59% (61% in 1999) of the Company's general fund actuarial liabilities. The timing and amount of the Company's obligations under annuity and pension products can be determined with reasonable certainty and the mismatch positions of the assets supporting these liabilities is monitored quarterly to measure compliance with the limits set out in the Company's Investment Policy.

The following table shows the estimated amount of the future asset and liability cash flows associated with the Company's annuity and pension products that were in force at December 31 and reflects the appropriate repricing or maturity date. The cash flow gap between the assets and the liabilities is also noted. These cash flows include the effect of any off-balance sheet derivative financial instruments the Company has entered into for asset/liability management purposes.

For the year ended December 31:

	Repricing or maturity date				
(in millions of Canadian dollars)	Less than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years
2000					
Assets	**$ 2,765**	**$ 7,573**	**$ 5,313**	**$ 6,603**	**$ 5,435**
Liabilities	**2,639**	**7,772**	**4,969**	**6,499**	**5,648**
Cash flow gap	**$ 126**	**$ (199)**	**$ 344**	**$ 104**	**$ (213)**
1999					
Assets	$ 2,621	$ 7,146	$ 4,781	$ 5,910	$ 4,616
Liabilities	2,613	7,262	4,453	5,814	4,865
Cash flow gap	$ 8	$ (116)	$ 328	$ 96	$ (249)

Two related methods are used by the Company to measure and to monitor the interest rate risk associated with the Company's annuity and pension products.

(i) Duration mismatch

Duration is defined as the time weighted average life of an asset or liability and measures the sensitivity of the economic value of assets and liabilities to changes in interest rates. For example, the economic value of assets or liabilities with longer terms is more sensitive to changes in interest rates than the economic value of assets or liabilities with shorter terms. This is reflected in the duration measure. The degree of mismatch can be measured as the difference between the duration of assets and the duration of liabilities. When the duration of assets exceeds the duration of liabilities, an increase in interest rates will result in a decrease in economic value. Conversely, when the duration of assets is less than the duration of liabilities, a decrease in interest rates will result in a decrease in economic value.

The following table indicates, in years, the duration mismatch that is associated with the Company's annuity and pension products as at December 31:

	2000	1999
Asset duration	**6.98**	6.54
Liability duration	**6.92**	6.47
Duration mismatch	**0.06**	0.07

(ii) Net present value

In addition to duration mismatch, interest rate risk is also measured in terms of the net present value (NPV) effect of interest rate changes. First, the NPV of future asset cash flows less future liability cash flows is determined using the interest rates in effect at the reporting date. The NPV is then recalculated assuming an immediate 1% parallel increase in interest rates and an immediate 1% parallel decrease in interest rates. The resulting change in NPV represents a measure of the degree of interest rate risk associated with a 1% parallel change in interest rates.

The impact on the NPV of the Company's annuity and pension products of a 1% parallel change in interest rates, as at December 31, is shown in the following table:

(in millions of Canadian dollars)	2000	1999
NPV	**$ 394**	$ 322
Impact on NPV if interest rate changed +1%	**(56)**	(37)
Impact on NPV if interest rate changed –1%	**50**	31

The margins for adverse deviations set aside in the actuarial liabilities, as described in note 3(g), take account of adverse interest rate movements that are significantly more adverse than the parallel 1% change shown above.

(c) Credit risk

Credit risk is the risk of financial loss due to the failure of a debtor to honour its obligations to the Company.

Potential areas of significant concentration of credit risk include non-investment grade bonds and non-insured mortgages, which in 2000, amounted to $649 million and $6,709 million, respectively ($457 million and $6,348 million, respectively in 1999) and represented 24% (22% in 1999) of the total invested asset portfolio. The carrying values of impaired non-investment grade bonds and non-insured mortgages in 2000, were $41 million and $17 million, respectively ($20 million and $42 million, respectively in 1999) and represented less than 1% of the invested asset portfolio in both 2000 and 1999.

Credit risk associated with an individual counterparty is indicated by the Company's largest exposure to any one corporate entity's fixed term investments, including term preferred shares. The Company's largest exposure to any one corporate entity in 2000 was $187 million ($145 million in 1999).

The Company has made provisions in its Consolidated Balance Sheet for credit losses in two ways:

(i) Specific provisions for assets that are currently impaired have been included through reductions in the values of the underlying assets.

(ii) Provisions have been included in the actuarial liabilities for assets that may become impaired in the future.

The amounts for these provisions are identified in note 6(b).

The Company's exposure to credit risk relating to its off-balance sheet investments in derivative financial instruments is disclosed in note 18.

(d) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign exchange rates as compared to the Canadian dollar. It arises from currency mismatches between assets and liabilities and the cash flows therefrom and is due to the Company's foreign operations and the portion of its surplus maintained in foreign denominated assets.

The Company's exposure to foreign currency risk for its operating funds is minimal due to its policy of generally matching foreign denominated assets and their related cash flows to the foreign denominated liabilities they support.

The Company is also exposed to foreign currency risk as a result of foreign denominated assets supporting its surplus. This risk is partially hedged with the use of forward foreign exchange contracts.

A 1% strengthening of the Canadian dollar relative to the currencies in the foreign jurisdictions in which the Company operates would reduce shareholders' retained earnings by $22 million ($18 million in 1999) and net income by $3 million ($2 million in 1999) after taking into account the effect of any off-balance sheet derivative financial instruments that the Company has entered into for purposes of hedging against adverse changes in foreign exchange rates.

(e) Liquidity risk

Liquidity risk refers to the ability of the Company to meet its obligations to policyholders and creditors as they fall due. The Company reduces its exposure to liquidity risk by closely matching the terms and cash flows of its assets and liabilities. Additionally, the Company maintains an appropriate level of liquidity by ensuring that a prescribed percentage of its assets are held in marketable investments.

The sources of liquidity are as follows:

(in millions of Canadian dollars)	**2000**	1999
Cash and short-term investments	**$ 1,424**	$ 1,033
Senior government securities	**5,020**	5,708
Other government securities and corporate bonds	**7,549**	6,997
Insured mortgages	**874**	769
Total	**$ 14,867**	$ 14,507

At December 31, 2000, the Company had $311 million ($283 million in 1999) available from the unused portion of revolving lines of credit.

Liquidity must be maintained, in particular, to provide for life insurance policies, which permit policyholders to surrender their policies for a guaranteed surrender value at any time. Some annuity policies may also be surrendered prior to the end of the stated maturity dates for a value determined by the terms of the policy. The aggregate amount of outstanding cash surrender values if all policies had been surrendered as at December 31, 2000 was $15,472 million ($15,714 million in 1999). Actual cash surrenders during the year amounted to $1,671 million ($1,647 million in 1999). Policyholder dividends left on deposit with the Company can be withdrawn on demand at any time, and as at December 31, 2000 totalled $299 million ($306 million for 1999). Policyholder dividends withdrawn during the year totalled $36 million ($31 million for 1999).

(f) Claims and reinsurance risk

Claims risk is the risk that the Company will incur excessive mortality and morbidity losses on any one policy or group of policies. In addition to establishing appropriate criteria to determine the insurability of applicants, the Company manages its claims risk by limiting its exposure to life and health claims. The claims risk for the Company is limited to its retention limit of $5 million for any individual life claim and various limits for health claims, not exceeding this limit depending on the type of coverage. To ensure these limits continue to be appropriate, management and the Board of Directors periodically review the policies relating to the maximum risks the Company will assume. Claims in excess of these retention limits are reinsured to outside reinsurers. The Company also maintains catastrophic reinsurance coverage with outside reinsurers of up to $90 million in the event of a loss of three or more lives in the same catastrophe.

Reinsurance arrangements do not relieve the Company of its primary obligations to its policyholders. Therefore, the Company may be exposed to credit risk relating to its reinsurers. The Company's exposure to this credit risk is the total amount due from all reinsurers as at December 31, 2000 of $105 million ($187 million in 1999).

The effects of reinsurance on premium income were as follows:

(in millions of Canadian dollars)	**2000**	1999
Direct written	**$ 5,007**	$ 4,929
Reinsurance assumed	**387**	470
Reinsurance ceded	**(718)**	(578)
Net premium income	**$ 4,676**	$ 4,821

5. ACQUISITIONS AND DISPOSITION

(a) On December 31, 2000 the Company sold its 100% interest in its general insurance subsidiary, Canada Life Casualty Insurance Company ("Casualty").

For the year ended December 31, 2000, the Consolidated Statement of Net Income includes Casualty's revenue of $132 million ($126 million for 1999) and net income of $10 million ($7 million for 1999). As at December 31, 2000, the Consolidated Balance Sheet includes Casualty's assets of nil ($232 million for 1999). The proceeds received on this sale were $80 million. The sale resulted in a gain of $18 million, net of tax. The gain is included in fee and other income on the Consolidated Statement of Net Income.

(b) On December 31, 2000 the Company purchased group savings business from a Canadian chartered bank which consists of assets under administration of $5,240 million. This business administers defined contribution plans, group RSP plans, profit sharing plans and stock plans. Goodwill created as a result of this transaction was immaterial. The assets under administration that were acquired are neither general fund or segregated funds assets and consequently are not included on the Consolidated Balance Sheet.

(c) On August 1, 2000, the Company acquired through assumption reinsurance, Confederation Life Insurance Company's Canadian payout annuity business. Under the agreement, the assets that were transferred to the Company to support future annuity payments were $717 million. Goodwill was not created as a result of this transaction.

(d) On January 1, 1999, Canada Life acquired through various reinsurance contracts, most of the business of Crown Life Insurance Company ("Crown Life") and the shares of Crown Life Insurance Company of Canada ("Crown Canada"), its wholly-owned subsidiary. Crown Canada was subsequently amalgamated with Canada Life. The general fund assets acquired totalled $4,892 million, and the general fund liabilities assumed totalled $4,710 million. Segregated funds assets and liabilities acquired totalled $767 million. Net assets acquired were $182 million and acquisition costs were $58 million. The total consideration paid in cash was $163 million and $39 million of goodwill was recorded on the acquisition.

Canada Life also has the option, or under certain circumstances may be required, to acquire the common shares of Crown Life at any time after January 1, 2004. The purchase price for these shares would be the fair value of the assets backing Crown Life's common shareholders' equity. Canada Life also has the option, or may be required, to acquire, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004. If this option were exercised, Canada Life would receive assets with a value equal to the liabilities assumed. In certain circumstances, Canada Life may exercise either of these options after July 1, 2000.

6. ANALYSIS OF GENERAL FUND INVESTMENTS

(a) Invested assets

(in millions of Canadian dollars)	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains	Unrealized losses	Fair value of investments
2000						
Bonds						
Government – Canada	**$ 3,021**	**$ –**	**$ 3,021**	**$ 185**	**$ (9)**	**$ 3,197**
Government – foreign	**3,626**	**–**	**3,626**	**267**	**(17)**	**3,876**
Corporate and other	**10,993**	**41**	**11,034**	**528**	**(214)**	**11,348**
Mortgages						
Residential	**2,595**	**–**	**2,595**	**169**	**(6)**	**2,758**
Non-residential	**4,971**	**17**	**4,988**	**271**	**(23)**	**5,236**
Common and preferred stocks	**1,988**	**14**	**2,002**	**504**	**(88)**	**2,418**
Real estate (including foreclosed properties)	**840**	**11**	**851**	**138**	**(47)**	**942**
Other invested assets	**3,003**	**3**	**3,006**	**5**	**–**	**3,011**
Total	**$ 31,037**	**$ 86**	**$ 31,123**	**$ 2,067**	**$ (404)**	**$ 32,786**
1999						
Bonds						
Government – Canada	$ 2,646	$ –	$ 2,646	$ 95	$ (100)	$ 2,641
Government – foreign	4,040	–	4,040	158	(107)	4,091
Corporate and other	9,690	24	9,714	452	(260)	9,906
Mortgages						
Residential	2,531	–	2,531	102	(39)	2,594
Non-residential	4,544	42	4,586	184	(68)	4,702
Common and preferred stocks	1,854	14	1,868	714	(72)	2,510
Real estate (including foreclosed properties)	964	10	974	220	(44)	1,150
Other invested assets	2,644	4	2,648	6	(1)	2,653
Total	$ 28,913	$ 94	$ 29,007	$ 1,931	$ (691)	$ 30,247

Invested assets of the Company with a carrying value of $27,466 million ($25,627 million for 1999) and a fair value totalling $29,019 million ($26,660 million for 1999), as well as the cash flows derived therefrom, support the actuarial and other liabilities of the operating funds, participating policyholders' equity and the non-operating fund liabilities disclosed in note 7(c). Changes in the fair value of these assets generally will not cause a corresponding change in equity.

Invested assets with a carrying value of $3,657 million ($3,380 million for 1999) and a fair value totalling $3,767 million ($3,587 million for 1999) support the shareholders' equity and subordinated debentures of the Company. Changes in the fair value of these assets would result in unrealized gains or losses, which would ultimately cause a corresponding change in shareholders' equity. In addition, the Company has recorded net deferred realized gains relating to the sale of assets supporting shareholders' equity of $353 million ($183 million for 1999). These net deferred realized gains and the unrealized gains or losses will be amortized into earnings in the future in accordance with the accounting policies described in note 2(b).

The carrying value and fair value of bonds, by contractual maturity are as follows:

	2000		1999	
(in millions of Canadian dollars)	**Carrying value**	**Fair value**	Carrying value	Fair value
Due in one year or less	**$ 818**	**$ 790**	$ 911	$ 914
Due after one year through five years	**4,012**	**4,051**	3,502	3,491
Due after five years through 10 years	**3,823**	**3,901**	3,292	3,304
Due after 10 years	**9,028**	**9,679**	8,695	8,929
Total	**$ 17,681**	**$ 18,421**	$ 16,400	$ 16,638

(b) Provisions for losses

The carrying values of impaired investments have been reduced by the following provisions for losses:

(in millions of Canadian dollars)	2000	1999
Bonds	**$ 20**	$ 16
Mortgages	**25**	38
Common and preferred stocks	**3**	3
Real estate (including foreclosed properties)	**2**	12
Other invested assets	**2**	1
Total	**$ 52**	$ 70

The change in the provisions for losses for the year is as follows:

Provisions for losses, beginning of year	**$ 70**	$ 96
Net decrease in provisions for losses on impaired investments *(note 6(c))*	**(17)**	(25)
	53	71
Effect of changes in currency translation rates	**(1)**	(1)
Provisions for losses, end of year	**$ 52**	$ 70

The net decrease in provisions for losses on impaired investments includes write-offs on restructured investments of $6 million ($1 million for 1999).

In addition to the above specific provisions, actuarial liabilities as at December 31, 2000 include $421 million ($338 million for 1999) to provide for potential future asset defaults.

(c) Net investment income

(in millions of Canadian dollars)	2000	1999
Interest	**$ 1,978**	$ 1,876
Dividends	**49**	60
Net rents	**62**	82
Amortized net gains from:		
Common and preferred stocks	**153**	178
Real estate	**20**	20
Bonds	**74**	101
Mortgages	**10**	10
Sundry	**11**	44
Losses on impaired investments:		
Net decrease in provisions for losses on impaired investments *(note 6(b))*	**17**	25
Write-offs and net realized losses on sale of impaired investments	**(22)**	(25)
Investment expenses	**(46)**	(50)
Total	**$ 2,306**	$ 2,321

(d) Net deferred gains

Net deferred gains are calculated in accordance with note 2(b) and include deferred realized gains and losses on the sale of investments. The balances are as follows:

(in millions of Canadian dollars)	**2000**	1999
Bonds	**$ 944**	$ 958
Mortgages	**53**	49
Common and preferred stocks	**457**	341
Real estate	**89**	(22)
Total	**$ 1,543**	$ 1,326

7. ACTUARIAL LIABILITIES

(a) Changes in actuarial liabilities

(in millions of Canadian dollars)	**2000**			1999		
	Participating	**Non-participating**	**Total**	Participating	Non-participating	Total
Balance, beginning of year	**$ 4,795**	**$ 18,926**	**$ 23,721**	$ 3,962	$ 15,652	$ 19,614
Set aside on new and existing business	**418**	**292**	**710**	365	727	1,092
Net change resulting from revised assumptions and refinements used in calculating certain liabilities*	**3**	**(41)**	**(38)**	(171)	212	41
	421	**251**	**672**	194	939	1,133
Acquisitions *(notes 5(c) and 5(d))*	**–**	**714**	**714**	724	3,236	3,960
Disposition *(note 5(a))*	**–**	**(66)**	**(66)**	–	–	–
Effect of changes in currency translation rates	**(1)**	**202**	**201**	(85)	(901)	(986)
Balance, end of year	**$ 5,215**	**$ 20,027**	**$ 25,242**	$ 4,795	$ 18,926	$ 23,721

**Included in actuarial liability releases for 2000 were reductions of $54 million in Canadian annuity interest rate margins, $46 million in respect of Canadian individual insurance mortality and $23 million for refinements in liabilities held for the Isle of Man business in Canada Life International. Additionally, there was a further net release of $7 million in respect of a variety of other items. Partially offsetting these releases were reserve strengthenings of $29 million in Canada in respect of individual insurance lapses, an increase in Canada in respect of group annuity mortality of $21 million, an increase in Canada of $12 million due to refinements in methods arising from system changes, net of related changes in the provision for future taxes included in actuarial liabilities, and increases in U.K. group and individual health insurance in respect of future morbidity experience of $30 million.*

Included in actuarial assumption changes for 1999 is a reserve release of $12 million related to economies of scale on the integration of past U.K. acquisitions. In accordance with the accounting policy described in note 2(j), this amount is offset by a reduction to goodwill and does not impact net income. Significant reserve increases included $158 million with respect to compensation to certain U.K. pension policyholders under Phase II of the U.K. Financial Services Authority guidelines; $55 million for anticipated mortality improvement of U.K. annuity contracts; and $23 million in respect of guarantees offered under Canadian Segregated funds and U.S. Variable Annuity contracts. Partially offsetting these increases were reductions of $169 million in respect of certain individual life liabilities arising mainly from demutualization restructuring and $24 million related to lower expenses. Additionally, there was a further net reserve strengthening of $10 million in respect of various other items.

(b) Distribution of actuarial liabilities

(in millions of Canadian dollars)	Participating	Non-participating				
	Insurance and annuities	Annuities	Individual life and health insurance	Group life and health insurance	General insurance	Total
2000						
Canada	**$ 2,386**	**$ 6,594**	**$ 1,029**	**$ 1,096**	**$ –**	**$ 11,105**
United Kingdom	**1,182**	**3,094**	**210**	**284**	**–**	**4,770**
United States	**1,054**	**4,821**	**1,828**	**365**	**–**	**8,068**
Republic of Ireland	**279**	**235**	**282**	**17**	**–**	**813**
International and Reinsurance	**314**	**26**	**92**	**54**	**–**	**486**
Total	**$ 5,215**	**$ 14,770**	**$ 3,441**	**$ 1,816**	**$ –**	**$ 25,242**
1999						
Canada	$ 2,188	$ 6,256	$ 1,034	$ 1,068	$ 60	$ 10,606
United Kingdom	1,209	2,844	76	229	–	4,358
United States	881	4,729	1,626	336	–	7,572
Republic of Ireland	237	255	98	18	–	608
International and Reinsurance	280	24	221	52	–	577
Total	$ 4,795	$ 14,108	$ 3,055	$ 1,703	$ 60	$ 23,721

Actuarial liabilities have been reduced by reinsurance ceded as follows:

(in millions of Canadian dollars)	**2000**	1999
Canada	**$ 199**	$ 170
United Kingdom	**108**	80
United States	**21**	25
Republic of Ireland	**19**	20
International and Reinsurance	**107**	106
Total	**$ 454**	$ 401

(c) Carrying value of assets supporting each product line

(in millions of Canadian dollars)	Operating Funds: Participating – Insurance and annuities	Operating Funds: Non-participating – Annuities	Operating Funds: Non-participating – Life and health insurance – Individual	Operating Funds: Non-participating – Life and health insurance – Group	Equity, subordinated debentures and non-operating fund liabilities*	Total 2000	Total 1999
CANADA							
Bonds	$ 1,620	$ 3,508	$ 723	$ 790	$ 605	**$ 7,246**	$ 6,668
Mortgages	461	2,954	204	358	9	**3,986**	3,764
Common and preferred stocks	243	35	2	2	105	**387**	445
Real estate (including foreclosed properties)	55	–	–	–	214	**269**	504
Other invested assets	465	395	65	282	177	**1,384**	1,127
All other assets	52	29	204	79	308	**672**	667
	$ 2,896	$ 6,921	$ 1,198	$ 1,511	$ 1,418	**$ 13,944**	$ 13,175
UNITED KINGDOM							
Bonds	$ 762	$ 2,135	$ 237	$ 275	$ 483	**$ 3,892**	$ 3,657
Mortgages	–	494	10	–	–	**504**	460
Common and preferred stocks	424	24	240	9	105	**802**	804
Real estate (including foreclosed properties)	109	275	–	–	111	**495**	394
Other invested assets	183	259	33	29	249	**753**	696
All other assets	21	151	41	24	172	**409**	417
	$ 1,499	$ 3,338	$ 561	$ 337	$ 1,120	**$ 6,855**	$ 6,428
UNITED STATES							
Bonds	$ 653	$ 2,763	$ 1,127	$ 221	$ 814	**$ 5,578**	$ 5,105
Mortgages	382	1,981	411	168	4	**2,946**	2,802
Common and preferred stocks	59	–	–	–	247	**306**	233
Real estate (including foreclosed properties)	–	–	6	–	34	**40**	40
Other invested assets	98	27	218	36	237	**616**	709
All other assets	42	140	102	42	60	**386**	389
	$ 1,234	$ 4,911	$ 1,864	$ 467	$ 1,396	**$ 9,872**	$ 9,278
REPUBLIC OF IRELAND							
Bonds	$ 152	$ 180	$ 195	$ 24	$ 84	**$ 635**	$ 528
Mortgages	–	–	–	–	–	**–**	1
Common and preferred stocks	142	82	158	–	125	**507**	386
Real estate (including foreclosed properties)	26	7	–	–	4	**37**	34
Other invested assets	62	2	4	(6)	51	**113**	20
All other assets	6	2	(8)	4	4	**8**	55
	$ 388	$ 273	$ 349	$ 22	$ 268	**$ 1,300**	$ 1,024
INTERNATIONAL AND REINSURANCE							
Bonds	$ 135	$ 17	$ 103	$ 75	$ –	**$ 330**	$ 442
Mortgages	82	11	27	27	–	**147**	90
Common and preferred stocks	–	–	–	–	–	**–**	–
Real estate (including foreclosed properties)	5	–	2	–	3	**10**	2
Other invested assets	113	6	15	2	4	**140**	96
All other assets	5	–	21	74	14	**114**	193
	$ 340	$ 34	$ 168	$ 178	$ 21	**$ 741**	$ 823
Total	$ 6,357	$ 15,477	$ 4,140	$ 2,515	$ 4,223	**$ 32,712**	$ 30,728

**Non-operating fund liabilities include employee and agent retirement benefit liabilities and other miscellaneous liabilities of the Company.*

8. SUBORDINATED DEBENTURES

(in millions of Canadian dollars)	Maturity	2000	1999
ISSUED IN 1996:			
Subordinated debentures bearing interest at a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90 day Bankers' Acceptance Rate plus 1%	2011	$ 250	$ 250
ISSUED IN 1998:			
Series 1 subordinated debentures bearing interest at a fixed rate of 5.8% until 2008 and, thereafter, at a rate equal to the Canadian 90 day Bankers' Acceptance Rate plus 1%*	2013	200	200
Series 2 subordinated debentures bearing interest at a fixed rate of 6.4%*	2028	100	100
Total		$ 550	$ 550

**These were converted into public debentures on December 11, 1999.*

At December 31, 2000, the fair value of the subordinated debentures was $565 million ($536 million in 1999).

Subordinated debentures were issued by Canada Life. All of the above debentures constitute direct, unsecured and subordinated obligations of Canada Life and are redeemable at the option of Canada Life with the prior approval of OSFI. The subordinated debentures qualify as Tier 2B capital for Canadian regulatory purposes.

Interest expense relating to the subordinated debentures was $38 million ($38 million for 1999) and is included as part of interest expense in the Consolidated Statement of Net Income.

9. INCOME TAXES

(a) Income tax expense

Income taxes are as follows:

(in millions of Canadian dollars)	2000	1999
Current income taxes	$ 117	$ 147
Future income taxes relating to temporary differences	63	(19)
Future income taxes resulting from changes in tax rates	31	–
Total	$ 211	$ 128

(b) Reconciliation of income tax expense

The income tax expense is derived as follows:

(in millions of Canadian dollars)	2000	1999
Net income before income taxes and after goodwill expense	$ 592	$ 448
Expected provision for income taxes at the combined Canadian federal and provincial statutory rate of 44.25% (44.25% for 1999)	262	198
Adjusted for:		
Federal and provincial statutory rate changes given effect in 2000	31	–
Tax-exempt investment income	(21)	(15)
Foreign operations taxed at different rates and bases	(48)	(80)
Investment income tax	10	10
Large corporations and other capital taxes	3	3
Recognition of tax losses of prior years	(16)	–
Other	(10)	12
Income tax expense	$ 211	$ 128

(c) Future income taxes

Other assets include future tax assets of $445 million ($543 million in 1999). The net future tax assets (assets and liabilities in 1999) arise from temporary differences on the following items:

(in millions of Canadian dollars)	2000		1999	
	Future tax assets	**Future tax liabilities**	Future tax assets	Future tax liabilities
Investments	**$ 139**	**$ –**	$ 120	$ 69
Actuarial liabilities	**148**	**94**	294	66
Employee future benefits	**55**	**4**	69	2
Deferred acquisition costs	**164**	**–**	152	–
Other	**38**	**1**	47	6
Total	**$ 544**	**$ 99**	$ 682	$ 143

A portion of the undistributed earnings of non-Canadian subsidiaries will be taxed in Canada upon repatriation. The Company will recognize the future tax liability on these undistributed earnings at the time when management determines that they will be repatriated in the foreseeable future.

As at December 31, 2000, the Company has accumulated tax loss carryforwards, primarily in Canada and the United Kingdom, totalling $329 million ($570 million in 1999). The future benefit of these tax loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $109 million ($202 million in 1999) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable. These loss carryforwards are included in income tax returns that are subject to examination by various tax authorities and could be changed as a result of reassessment of these tax returns. The tax benefit of $30 million ($83 million in 1999) related to the accumulated loss carryforwards has not been recognized as a future tax asset.

(d) Goodwill

Goodwill expense is net of a tax recovery of $2 million for the year ended December 31, 2000 ($2 million in 1999).

10. OTHER LIABILITIES

Other liabilities are comprised of the following items:

(in millions of Canadian dollars)	**2000**	1999
Accounts payable	**$ 444**	$ 394
Employee future benefits *(note 15)*	**149**	163
Current income taxes	**174**	123
Premium taxes	**14**	9
Future tax liabilities	**–**	4
Bank loans and mortgages on real estate	**–**	4
Other	**240**	225
Total	**$ 1,021**	$ 922

11. SHARE CAPITAL

(a) Authorized:

(i) Preferred shares

There are an unlimited number of non-voting authorized preferred shares without nominal or par value, issuable in series. The by-law authorizes the Board of Directors ("the Board"), prior to the issue of any series of preferred shares, to fix the number of shares in, and to designate the rights, privileges, restrictions and conditions of each series, subject to the provisions of the Company's by-laws and the Insurance Companies Act (Canada) ("the Act").

(ii) Common shares

There are an unlimited number of authorized voting common shares.

(b) Issued and outstanding:

(i) Preferred shares

No preferred shares are currently issued or outstanding.

(ii) Common shares *(see note 14)*

Common shares Issued and outstanding: *(in millions of Canadian dollars)*	2000 Number of shares	2000 Share value	1999 Number of shares	1999 Share value
Balance, beginning of year	**160.4**	**$ 317**	–	$ –
Shares issued at demutualization in an initial offering	–	–	14.2	249
Shares issued at demutualization to eligible policyholders in a secondary offering	–	–	142.3	–
Shares issued to underwriters under an over allotment option*	–	–	3.9	68
Balance, end of year	**160.4**	**$ 317**	160.4	$ 317

* *The Company granted the underwriters an option, exercisable for a period of 60 days after the date of demutualization, to purchase up to 3.9 million common shares from Treasury at a price of $17.50 per common share. This option was exercised for the entire amount on December 15, 1999.*

The Company's legal stated capital as at December 31, 2000 was $2.7 billion ($2.7 billion for 1999).

(iii) Stock-based compensation

(a) Stock option plan

Under terms of the Plan approved by the Board on February 8, 2000, options to purchase common shares from the Company may be granted effective November 4, 2000 to selected employees and members of the Board of Directors, at an exercise price not less than the closing price of the common shares on the Toronto Stock Exchange on the last trade the day prior to the date the option was granted. The total number of options that may be issued under the plan as approved by the Board on February 8, 2000 is 8 million. Except under certain conditions, these options vest 25% each year over a 4 year period and expire 10 years after the date of the grant.

At the discretion of the Board, options may be awarded with rights ("Rights") granted in tandem. The Rights give the participant the choice to either exercise the option or forfeit the option and receive a cash payment equal to the difference between the market value of the shares on the date of exercise and the exercise price.

The number of options granted, the exercise price, the Rights issued, the expiry date and the vesting period are determined by the Board.

The activity in the Plan for the year ended December 31, 2000 is as follows:

(in millions of Canadian dollars)	Options	Weighted average exercise price
Balance, beginning of year	–	$ –
Granted on November 8, 2000	**971,789**[1]	**36.95**
Exercised	–	–
Cancelled on December 31, 2000	**(9,743)**[2]	**36.95**
Balance, end of year	**962,046**	**$ 36.95**
Exercisable, end of year	**48,000**[2]	**$ 36.95**

[1] *The Board approved Rights to be attached to 941,539 of these options.*
[2] *All of these options had Rights attached.*

(b) Employee stock purchase plan

The Company has adopted a Stock Purchase Plan effective January 1, 2001. Qualifying employees can choose to have a portion of their annual base salary withheld to purchase the Company's common shares. The Company matches 50% of the employee contribution amount to a maximum of the lessor of $1,500 per year or 2.5% of eligible annual earnings. The Company's contributions vest after 1 year of continuous participation in the plan and all subsequent contributions vest immediately. Matching contributions made by the Company on the purchase of shares are expensed.

12. EARNINGS PER SHARE

(in millions of Canadian dollars except per share amounts)		2000		1999[1]
Shareholders' net income before goodwill expense	$	**409**	$	359
Shareholders' net income	$	**385**	$	321
Weighted daily average number of shares outstanding		**160.4**		160.4
Basic earnings per share excluding goodwill expense	$	**2.55**	$	2.24
Basic earnings per share	$	**2.40**	$	2.00

[1] *Pro forma earnings per share have been calculated assuming shares issued during 1999 were issued January 1, 1999 and the shareholders' net income for the period ended December 31, 1999 was $321 million. See note 14(a) for further details.*

13. MINIMUM CAPITAL REQUIREMENTS AND RESTRICTIONS

The Company is regulated by OSFI as a Canadian insurance company. OSFI requires Canadian insurance companies to maintain minimum levels of capital and surplus with respect to their worldwide insurance operations in order to provide additional assurance with respect to future solvency. These minimum levels are calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR) issued by OSFI. The Company's policy is to maintain an MCCSR ratio well in excess of the minimum required level. At the end of 2000, the ratio was 206%. The 1999 ratio was 190%.

The Company's United States operations must also meet minimum Risk Based Capital requirements, which are similar in nature to the Canadian MCCSR. In each of the United Kingdom and the Republic of Ireland, the Company's operations must meet solvency requirements, which require admissible assets to exceed liabilities plus a minimum margin. The Company exceeds the minimum surplus and solvency requirements in all of the foreign jurisdictions in which it operates. The Company maintains sufficient assets in each jurisdiction to meet both its policyholder obligations and local minimum surplus and solvency requirements.

The Company's ability to meet its cash requirements and pay dividends on the common shares will depend on the receipt of dividends and other payments from Canada Life. Canada Life's insurance subsidiaries and branches are required to maintain solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of dividends, distributions or other payments that may be made by such subsidiaries and branches to Canada Life and to the Company.

14. DEMUTUALIZATION

Canada Life demutualized on November 4, 1999, whereby it converted from a mutual life insurance company to one with common shares. At the date of demutualization, Canada Life became a wholly-owned subsidiary of the Company by issuing all of its common shares to the Company.

(a) Equity and net income

(i) As part of the demutualization and as further disclosed in note 11(a), the Company issued 142.3 million common shares for nil proceeds from treasury, or in certain circumstances paid cash or granted policy credits to eligible policyholders of Canada Life. The Company also issued 14.2 million common shares for proceeds of $249 million from treasury that were subscribed for by the public.

(ii) On November 4, 1999, the accumulated balance of $2,848 million in policyholders' surplus (which included $249 million earned in 1999 prior to demutualization), less demutualization and initial public offering costs of $65 million net of tax, was transferred to the shareholders' account and reclassified as shareholders' retained earnings. Subsequent to demutualization, net income has been separated between shareholders' net income and participating policyholders' net income. Post demutualization, 1999 shareholders' net income was $72 million and the participating policyholders' net loss was $1 million.

For comparative purposes the 1999 shareholders' net income has been presented and pro forma earnings per share have been calculated assuming the entire $249 million pre-demutualization net income was attributable to shareholders.

(b) Participating account

The Act requires the Company to maintain two accounts within its general fund: one for its participating policies (the "participating account") and one for all of its other business (the "shareholders' account"). Through its participating account, the assets, liabilities, income and surplus relating to the Company's participating policies are recorded separately. This permits the Company to determine dividends on its participating policies based on the experience of the account relating to those policies only.

The participating account is composed of three sub-accounts: a "closed block sub-account", an "ancillary sub-account" and a "new business sub-account".

(i) The closed block sub-account is comprised of the liabilities for guaranteed benefits, expenses and taxes, including riders or supplementary benefits, policyholders' reasonable expectations for dividends and other non-guaranteed benefits determined using best estimate assumptions. The closed block sub-account was created for eligible participating policyholders as at the date of demutualization. These amounts were estimated to be $3,364 million at December 31, 2000 ($2,913 million in 1999). The closed block sub-account established at demutualization is for the protection of policyholders' reasonable expectations and is for the sole benefit of the policyholders of the closed block. Therefore, closed block sub-account assets are not available to the shareholders' account. If at any time the value of the assets allocated to the closed block sub-account were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of the closed block and the future reasonable earnings expectations of the policyholders, assets having a sufficient value to rectify the situation will be transferred first from the ancillary sub-account and then, if such deficiency was expected to be permanent, from the shareholders' account. Any such transfers from the shareholders' account would be recorded as a charge to the shareholders' net income.

(ii) The ancillary sub-account represents the margins for adverse deviation in respect of participating policies, including riders or supplementary benefits, referred to in (i) and liabilities for guaranteed benefits in respect of participating Canadian group life policies issued or assumed by the Company prior to demutualization. These amounts are determined by the Appointed Actuary and were estimated to be $350 million at December 31, 2000 ($326 million in 1999). Assets that, in the opinion of the Appointed Actuary, are in excess of those required to support the ancillary sub-account liabilities will be transferred periodically from the ancillary sub-account to the shareholders' account. Such amounts will be recorded as shareholders' net income. For the year ended December 31, 2000, $14 million ($3 million for the period November 5, 1999 to December 31, 1999) was transferred from the ancillary sub-account to the shareholders' account.

(iii) The new business sub-account is comprised of all liabilities, in respect of new participating policies issued on or after demutualization. On demutualization, $50 million of seed capital was transferred from the retained earnings of the shareholders' account to the new business sub-account, and subsequent transfers will be made, if necessary, to ensure that the assets allocated to the new business sub-account are sufficient to support the future participating policies, including riders or supplementary benefits, arising from this sub-account in the five year period subsequent

to demutualization. A percentage of the earnings of the new business sub-account may be transferred to the shareholders' account as permitted by regulation. Subject to approval by OSFI, the seed capital amount together with a reasonable rate of return may be transferred to the shareholders' account once the value of the assets allocated to the new business sub-account exceeds the value, in the opinion of the Appointed Actuary, required to provide for the new business sub-account liabilities. Transfers of seed capital to the shareholders' account would be returns of capital and would be recorded as adjustments to shareholders' retained earnings. A reasonable rate of return on seed capital will be recognized as income in the shareholders' account and an expense in the participating account.

In addition, prior to demutualization, the Company had established several closed blocks in respect of participating policyholder business previously acquired from other companies. These closed blocks will continue to operate as they did prior to demutualization. The total liabilities related to these closed blocks were $1,501 million at December 31, 2000 ($1,447 million in 1999).

15. EMPLOYEE FUTURE BENEFITS

The Company provides pension and other post-retirement life, health and dental insurance benefits as well as post-employment benefits, for its eligible employees and agents.

Information about the Company's defined benefit pension and other arrangements, in aggregate, is as follows:

	Pension Benefits		Other Benefits	
(in millions of Canadian dollars)	2000	1999	2000	1999
ACCRUED BENEFIT OBLIGATION:				
Balance, beginning of year	$ 761	$ 651	$ 118	$ 121
Impact of changes in accounting policy *(note 2(g))*	6	–	–	–
Service cost	34	33	5	5
Employee contributions	4	3	–	–
Interest cost	54	54	8	7
Benefits paid	(42)	(38)	(6)	(3)
Actuarial gains	5	(20)	(1)	(30)
Acquisitions	8	100	–	19
Effect of changes in currency exchange rates	(4)	(22)	1	(1)
Balance, end of year	$ 826	$ 761	$ 125	$ 118
FUNDED PLAN ASSETS:				
Fair value, beginning of year	$ 1,110	$ 963	$ –	$ –
Impact of changes in accounting policy *(note 2(g))*	(73)	–	–	–
Actual return on plan assets	253	121	–	–
Employer contributions	7	6	–	–
Employee contributions	4	3	–	–
Benefits paid	(42)	(38)	–	–
Acquisitions	5	89	–	–
Effect of changes in currency exchange rates	(7)	(34)	–	–
Fair value, end of year	$ 1,257	$ 1,110	$ –	$ –
Net funded status at end of year	$ 431	$ 349	$ (125)	$ (118)
Unamortized net actuarial losses (gains)	(166)	(312)	(1)	(2)
Unamortized past service costs	–	1	–	–
Unamortized transitional (asset) obligation	(290)	(81)	2	–
Prepaid (accrued) benefit asset (liability)	$ (25)	$ (43)	$ (124)	$ (120)

Included in the above accrued benefit obligation at the end of 2000 is $158 million ($149 million for 1999) in respect of pension arrangements, of which $149 million ($138 million for 1999) is supported by assets held within the Company's general fund. The other benefit obligations are also supported by assets held within the Company's general fund.

The Company's net expense for defined benefit pension and post-retirement benefit plans is as follows:

(in millions of Canadian dollars)	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Service cost	**$ 34**	$ 30	**$ 5**	$ 5
Expected interest cost	**54**	54	**8**	7
Expected return on plan assets	**(80)**	(75)	**–**	–
Net actuarial gains	**–**	(11)	**–**	(35)
Amortization of transitional (asset) liability	**(21)**	(9)	**1**	–
Net benefit plan expense (recovery)	**$ (13)**	$ (11)	**$ 14**	$ (23)

The Company's net expense for defined contribution pensions is $2 million ($4 million for 1999).

The significant actuarial assumptions adopted in measuring the Company's end of year accrued benefit obligations are as follows (weighted average assumptions):

	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Discount rate	**6.94%**	7.44%	**7.07%**	7.08%
Expected long-term rate of return on plan assets	**7.96%**	7.48%	**–**	–
Rate of compensation increase	**5.29%**	5.75%	**5.45%**	5.54%

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 1-percentage-point change in the assumed health care cost trend rates would be as follows:

(in millions of Canadian dollars)	1-percentage-point increase	1-percentage-point decrease
Effect on total of service and interest costs for 2000	$ 2	$ (2)
Effect on year-end post-retirement benefit obligation	11	(12)

The assumed weighted average increase in health care costs for 2000 is 7.1%, gradually decreasing to 5.4% by 2007 and remaining at that level thereafter.

The Company acquired the Crown Life Insurance Company of Canada on January 1, 1999, increasing the accrued benefit obligation for pension benefits by $100 million in 1999 and an additional $8 million in 2000. Other post-retirement benefits increased by $19 million. As part of the acquisition, the Company received sufficient assets to support these benefit obligations.

16. COMMITMENTS

(a) The Company has contractual obligations in respect of rents payable on leased premises and equipment as follows:

YEAR ENDED DECEMBER 31

(in millions of Canadian dollars)

2001	$	46
2002		38
2003		30
2004		27
2005		25
Subsequently		117
Total	**$**	**283**

Rent expense incurred for the years ended December 31, 2000 and 1999 was $44 million and $43 million, respectively.

(b) The Company lends its own securities to borrowers on a fully collateralized basis. Securities lent at December 31, 2000 amounted to $541 million ($722 million for 1999).

17. SEGMENTED INFORMATION

(a) Basis of segmentation

The Company manages its business and distributes its general fund and segregated funds insurance and annuity products through operating divisions in Canada, the United Kingdom, the United States, the Republic of Ireland, and an International and Reinsurance division. Each operating division includes branch operations and/or subsidiary companies, is organized to meet the needs of local markets, and is responsible for its own product functions.

The operating divisions are charged overhead costs for head office corporate functions using cost allocations based on services provided. In addition, the operating divisions share in the net earnings from the surplus assets maintained by the Company. The total net earnings on the surplus assets are allocated to the divisions based on the level of required capital in each division. The level of required capital is based on the MCCSR for branch operations and on the actual surplus held for subsidiary companies.

(b) Reportable information

The Company's primary sources of revenue are:

- premium income derived from life and health insurance products that provide protection against mortality and morbidity risks, and annuity products that provide asset accumulation or wealth management benefits;
- net investment income; and
- fee and other income derived primarily from investment management services.

(in millions of Canadian dollars)	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
2000						
GENERAL FUND						
Revenues						
Premium income						
Participating insurance and annuities	$ 315	$ 101	$ 265	$ 63	$ 42	$ 786
Non-participating:						
Annuities	312	585	580	70	1	1,548
Individual life and health insurance	232	63	163	203	13	674
Group life and health insurance	766	206	343	8	68	1,391
Reinsurance	–	–	–	–	153	153
General insurance	124	–	–	–	–	124
	1,749	955	1,351	344	277	4,676
Net investment income	995	475	698	77	61	2,306
Fee and other income	177	221	21	62	3	484
	2,921	1,651	2,070	483	341	7,466
Expenditures						
Payments to policyholders and beneficiaries	2,231	704	1,679	112	198	4,924
Increase (decrease) in actuarial liabilities	(149)	524	52	215	30	672
Commissions	93	73	80	42	53	341
General expenses	410	172	134	68	27	811
Premium taxes	43	–	13	3	4	63
Interest expense	23	–	12	–	4	39
	2,651	1,473	1,970	440	316	6,850
Net income before income taxes and goodwill expense	270	178	100	43	25	616
Income taxes	138	31	25	11	6	211
Net income before goodwill expense	132	147	75	32	19	405
Goodwill expense	1	20	2	–	1	24
Net income	131	127	73	32	18	381
Participating policyholders' net income (loss)	–	–	(8)	3	1	(4)
Shareholders' net income	$ 131	$ 127	$ 81	$ 29	$ 17	$ 385
Total assets:						
Participating*	$ 2,896	$ 1,499	$ 1,234	$ 388	$ 340	$ 6,357
Non-participating	11,048	5,356	8,638	912	401	26,355
	$ 13,944	$ 6,855	$ 9,872	$ 1,300	$ 741	$ 32,712
SEGREGATED FUNDS						
Premiums	$ 1,909	$ 1,258	$ 115	$ 407	$ 3	$ 3,692
Total assets	$ 8,326	$ 11,219	$ 854	$ 1,980	$ 4	$ 22,383

**Of the total participating actuarial liabilities at December 31, 2000, approximately 93% represents the closed block sub-account.*

(in millions of Canadian dollars)	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
1999						
GENERAL FUND						
Revenues						
Premium income						
Participating insurance and annuities	$ 318	$ 110	$ 283	$ 74	$ 46	$ 831
Non-participating:						
Annuities	571	682	466	50	–	1,769
Individual life and health insurance	190	55	130	232	18	625
Group life and health insurance	715	178	321	9	54	1,277
Reinsurance	–	–	–	–	202	202
General insurance	117	–	–	–	–	117
	1,911	1,025	1,200	365	320	4,821
Net investment income	1,011	509	659	79	63	2,321
Fee and other income	127	193	18	51	4	393
	3,049	1,727	1,877	495	387	7,535
Expenditures						
Payments to policyholders and beneficiaries	2,078	640	1,613	173	246	4,750
Increase (decrease) in actuarial liabilities	289	675	(47)	187	29	1,133
Commissions	93	75	81	34	61	344
General expenses	354	157	124	66	22	723
Premium taxes	37	–	13	3	4	57
Interest expense	38	3	–	–	1	42
	2,889	1,550	1,784	463	363	7,049
Net income before income taxes and goodwill expense	160	177	93	32	24	486
Income taxes	70	16	31	4	7	128
Net income before goodwill expense	90	161	62	28	17	358
Goodwill expense	2	33	2	–	1	38
Net income	88	128	60	28	16	320
Participating policyholders' net loss	–	–	–	(1)	–	(1)
Shareholders' net income	$ 88	$ 128	$ 60	$ 29	$ 16	$ 321
Total assets:						
Participating*	$ 2,707	$ 1,357	$ 949	$ 321	$ 432	$ 5,766
Non-participating	10,468	5,071	8,329	703	391	24,962
	$ 13,175	$ 6,428	$ 9,278	$ 1,024	$ 823	$ 30,728
SEGREGATED FUNDS						
Premiums	$ 1,466	$ 914	$ 144	$ 213	$ –	$ 2,737
Total assets	$ 7,648	$ 11,453	$ 1,026	$ 1,747	$ 1	$ 21,875

**Of the total participating actuarial liabilities at December 31, 1999, approximately 91% represents the closed block sub-account.*

18. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is party to various derivative financial instruments, not all of which are reflected in the Consolidated Balance Sheet. Derivative financial instruments are financial contracts that derive their value from that of the underlying financial assets, interest rates, foreign currency rates or stock/bond/commodity indices.

Derivative financial instruments are either negotiated over-the-counter (OTC) as a direct arrangement between two counterparties or traded on a regulated exchange. Derivative financial instruments include:

- options, which are contracts giving the holder, for a fee, the right, but not the obligation, to buy or sell, within a limited time, the underlying financial asset at a contracted price;
- futures and forwards, which impose obligations on the contracting parties to buy or sell at a future date, a specified underlying financial asset at a specified price, and which may be settled in cash or through delivery; and
- swaps, which are contracts obligating two parties to exchange a series of cash flows at specified intervals in the future.

The following table summarizes the notional amount, the fair value and the credit risk exposure of the Company's derivative financial instruments:

	Interest rate contracts*		Foreign exchange contracts		Other contracts***	Total contracts
(in millions of Canadian dollars)	Futures	Swaps	Forwards**	Swaps		
2000						
Notional amount by term to maturity						
Exchange traded:						
Less than 1 year	$ 594	$ –	$ –	$ –	$ 54	$ 648
Over the counter:						
Less than 1 year	–	70	650	13	102	835
1 to 5 years	–	351	–	97	–	448
Over 5 years	–	1,028	–	907	–	1,935
Total	$ 594	$ 1,449	$ 650	$ 1,017	$ 156	$ 3,866
Fair value	$ –	$ 33	$ (3)	$ (49)	$ (13)	$ (32)
Credit risk exposure						
Maximum credit risk	$ –	$ 63	$ 5	$ 9	$ –	$ 77
Potential future credit exposure	–	17	6	73	6	102
Credit equivalent amount	$ –	$ 80	$ 11	$ 82	$ 6	$ 179
Risk weighted amount	$ –	$ 24	$ 2	$ 32	$ 1	$ 59
1999						
Notional amount by term to maturity						
Exchange traded:						
Less than 1 year	$ 666	$ –	$ –	$ –	$ 14	$ 680
Over the counter:						
Less than 1 year	–	55	948	28	86	1,117
1 to 5 years	–	255	–	121	–	376
Over 5 years	–	1,059	–	1,012	–	2,071
Total	$ 666	$ 1,369	$ 948	$ 1,161	$ 100	$ 4,244
Fair value	$ –	$ 22	$ 19	$ 10	$ (6)	$ 45
Credit risk exposure						
Maximum credit risk	$ –	$ 64	$ 20	$ 36	$ 2	$ 122
Potential future credit exposure	–	17	10	82	5	114
Credit equivalent amount	$ –	$ 81	$ 30	$ 118	$ 7	$ 236
Risk weighted amount	$ –	$ 25	$ 6	$ 46	$ 2	$ 79

* *The Company has purchased options to enter into interest rate swaps in order to hedge the exposure of adverse movements in interest rates. The notional amount for 2000 was $823 million ($896 million for 1999).*

** *The Company makes use of forward foreign exchange agreements to hedge the exposure of its investment in foreign operations against adverse movements in foreign exchange rates. The notional amount for 2000 was $569 million ($891 million in 1999).*

*** *The Company makes use of options and equity return swaps to hedge a portion of its stock portfolio against adverse movements in the stock markets. The notional amounts for the options and the equity return swaps for 2000 were nil and $102 million, respectively ($73 million and $12 million, respectively, in 1999).*

Definition of terms used in this table:

(a) Notional amount reflects the volume of the Company's investment in derivative financial instruments. It represents the amount to which a rate or price is applied to calculate the exchange of cash flows. The amount of risk inherent in these contracts is significantly less than the notional amount.

(b) Fair value of a derivative financial instrument is equivalent to the replacement cost. Fair value is an estimate of the value at which derivative instruments could be exchanged between willing parties, other than in a forced or liquidation sale. When available, quoted market prices are used for derivative financial instruments. In all other cases, fair values are based on present value estimates of the future cash flows. The fair values stated above represent the net of contracts in a receivable position and those in a payable position.

(c) Credit risk exposure reflects the potential loss due to defaults by the counterparties with which the Company is dealing. Credit risk is comprised of the following components, which have been determined in accordance with OSFI guidelines:

(i) Maximum credit risk represents the cost of replacing, at current market rates, all contracts that have a positive fair value, should the counterparty default. Since no loss related to credit risk is incurred for derivative contracts with a negative fair value, only positive fair values are considered to be at risk.

(ii) Potential future credit exposure quantifies the potential for future losses, which may result from future movement in market rates.

(iii) Credit equivalent amount is the sum of maximum credit risk and the potential future credit exposure reflecting the loss that would be incurred by the Company should a counterparty default on a derivative contract either now, or at some time in the future.

(iv) Risk weighted amount estimates actual credit risk for a derivative financial instrument by applying a weighting factor based on the credit worthiness of the counterparty against the credit equivalent amount.

(d) Other contracts include equity return swaps, collars and stock options.

19. CONTINGENT LIABILITIES

(a) Legal proceedings

The Company has, in the normal course of business, a number of outstanding lawsuits. The aggregate liability, which may result from these lawsuits, is not considered to be a material amount.

In addition, actions have been commenced against the Company in Canada relating to the sale of whole life insurance policies on the basis that dividends would be used to pay future premiums. Three of these actions have been filed in Ontario, Quebec and British Columbia by plaintiffs seeking to have the actions certified as class actions. To date, none of these actions have been certified as class action lawsuits and they are still at a preliminary stage. The Company does not expect them to have a material impact on these Consolidated Financial Statements.

(b) Prior pension sales in the United Kingdom

In the United Kingdom, life insurance companies are required by the U.K. regulators to compensate policyholders who previously acquired personal pension products offered by such companies in situations in which they could otherwise have remained in or joined employer-sponsored pension plans and who suffered a financial loss as a result.

The Company established a provision of $239 million as at December 31, 1999. During 2000, no further provisions were made. This was reduced by net reductions relating primarily to payments to policyholders during the year and other adjustments of $35 million. The provision as at December 31, 2000 was $204 million. These amounts are net of estimated recoveries from vendors of the businesses acquired by the Company in the United Kingdom. This provision is based on management's current estimate and the amount of the actual compensation to policyholders may vary from this amount.

20. MATERIAL DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Consolidated Financial Statements of the Company are presented in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in certain material respects from accounting principles generally accepted in the United States ("U.S. GAAP"). The following is a summary of the material differences.

(a) The following table provides a reconciliation of Canadian GAAP net income and equity to U.S. GAAP net income, comprehensive income and equity.

	Net Income		Equity	
(in millions of Canadian dollars)	2000	1999	2000	1999
Net income and equity determined in accordance with Canadian GAAP	**$ 381**	$ 320	**$ 3,151**	$ 2,877
Adjustments in respect of:				
Bonds	**3**	(48)	**944**	958
Mortgages	**3**	6	**53**	49
Common and preferred stocks	**161**	(93)	**232**	9
Real estate	**270**	(29)	**(75)**	(335)
Deferred acquisition costs	**229**	137	**1,510**	1,286
Goodwill	**(62)**	(12)	**386**	469
Actuarial liabilities	**(354)**	(211)	**(3,466)**	(3,109)
Demutualization expenses	**–**	(40)	**–**	–
Future income taxes	**(154)**	58	**(288)**	(128)
Other reconciling items	**27**	(66)	**671**	630
Net income determined in accordance with U.S. GAAP	**$ 504**	$ 22	**$ –**	$ –
Foreign currency translation	**(7)**	(119)	**–**	–
Effect of unrealized gains and losses on available for sale bonds and stocks:				
Bonds	**502**	(1,450)	**740**	238
Common and preferred stocks	**(320)**	(24)	**653**	973
Deferred acquisition costs	**(126)**	165	**(192)**	(66)
Actuarial liabilities	**(293)**	472	**(530)**	(237)
Future income taxes	**98**	223	**(34)**	(132)
Comprehensive income and equity determined in accordance with U.S. GAAP	**$ 358**	$ (711)	**$ 3,755**	$ 3,482

(b) The following table provides a general review of the material valuation and income recognition differences between Canadian GAAP and U.S. GAAP.

	CANADIAN GAAP	U.S. GAAP
Bonds	Bonds are carried at amortized cost, less an allowance for specific losses, when a decline in the value of the bond is considered to be other than temporary. Realized gains and losses on disposal are deferred and brought into income over the remaining term to maturity.	Bonds may be classified as "available for sale", "held to maturity" or "trading" securities. All bonds are classified as "available for sale" by the Company. Bonds accounted for as "available for sale" are carried at fair value. Other than temporary declines, the value of bonds classified as "available for sale" results in a write-down through a charge to income in the period of recognition. Realized gains and losses on disposal are immediately recognized in income. Unrealized gains and losses on bonds classified as "available for sale" are excluded from income and are reported net of tax as a separate component of equity.
Mortgages	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses on disposal are deferred and amortized into income over the remaining term of the mortgage sold.	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses on disposal are recognized in income immediately.
Common and preferred stocks	Stocks are carried at a value that is adjusted toward fair value each year at a rate of 15% of the difference between the carrying value and year-end fair value. This adjustment is reflected in net income. Net realized gains and losses on disposal are deferred and amortized to net income on a declining balance basis at 15% per annum. If there is an other than temporary decline in the value of the stock portfolio, the carrying value is written down to fair value immediately through a charge to income.	Stocks may be classified as "available for sale" or "trading" securities. All stocks are classified as "available for sale" by the Company. Stocks accounted for as "available for sale" are carried at fair value. Realized gains and losses on disposal are immediately recognized in income. Unrealized gains or losses on stocks classified as "available for sale" are excluded from income and are reported net of tax as a separate component of equity. Other than temporary declines, the value of stock classified as "available for sale" results in a write-down through a charge to income in the period of recognition.

	CANADIAN GAAP	U.S. GAAP
Real estate	Real estate, including Company occupied premises, is carried at a value that is adjusted toward fair value each year at a rate of 10% of the difference between the carrying value and year-end appraised value. This adjustment is reflected in net income. Appraised value is determined annually based on a combination of internal appraisals established by the Company and independent appraisals. Net realized gains and losses on disposal are deferred and amortized to net income on a declining balance basis at 10% per year. If there is an other than temporary decline in the value of the real estate portfolio, the carrying value is written down to fair value immediately through a charge to income.	Real estate is carried at cost less accumulated depreciation. Realized gains and losses on disposal are recognized in income as they occur. Unrealized gains and losses are not recognized. Specific properties are written down to fair value if an impairment in the value of the property is considered to be other than temporary.
Deferred acquisition costs	All policy acquisition costs are expensed as incurred. The computation of actuarial liabilities takes this into consideration.	The costs of acquiring new business that vary with and are related primarily to the production of new business are deferred and recorded as an asset to the extent such costs are deemed recoverable from future profits. Deferred Acquisition Costs (DAC) consist principally of commissions, and policy issue and underwriting expenses. For non-participating traditional life and annuity policies with life contingencies, DAC is amortized in proportion to expected future premiums. Assumptions on expected future premiums are made at the date of policy issue and are consistently applied over the life of the contracts. For participating traditional life and universal life and investment-type contracts, DAC is amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contract. The assumptions used to estimate future gross profits change as experience emerges. In addition, DAC relating to these contracts is adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on the bonds and stocks classified as available for sale had actually been realized. This adjustment is not included in income, but is recognized directly in equity.

	CANADIAN GAAP	U.S. GAAP
Actuarial liabilities	For all policy types, actuarial liabilities are calculated using the Policy Premium Method ("PPM"). This represents the amount required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions, and policy maintenance expenses for all insurance and annuity policies in force with the Company. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Assumptions used in the best estimate reserve cover investment yields, including asset defaults; mortality; morbidity; expenses; policyholder dividends; and policy lapses and surrenders. Because of uncertainties involved in this process, best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavorable deviations from expected experience. These margins increase actuarial liabilities and reduce the net income that otherwise would be recognized at the inception of a policy. Assumptions are updated regularly, and the effects of any changes in assumptions are recognized in income immediately. Unless adverse deviation in fact occurs, the provisions for adverse deviation are recognized in income over the term of the contract as the risk of deviation from estimates declines.	There are three main standards for valuing actuarial liabilities, depending on the nature of the insurance contract. For traditional non-participating contracts, disability insurance and reinsurance contracts, actuarial liabilities are calculated using a net level premium method. The liabilities represent the present value of future benefits to be paid and related expenses less the present value of future net premiums. The assumptions used are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing deferred acquisition costs. In which case, these deferred acquisition costs are reduced or written off, and, if necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening of actuarial liabilities no longer apply. For universal life and investment-type contracts, the actuarial liabilities are equal to the policyholder account values. There is no provision for adverse deviation. If it is determined that the future income for universal life-type contracts is no longer adequate to recover the existing deferred acquisition costs, these costs would be written off, and actuarial liabilities would increase as necessary. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening no longer apply. For participating contracts, the actuarial liability is computed using a net level premium method. There is no provision for adverse deviation. The assumptions used are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing deferred acquisition costs. In this case, these deferred acquisition costs are reduced or written off, and, if necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening no longer apply. In addition, U.S. GAAP requires that certain actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains on stocks and bonds classified as "available for sale" had been realized. This adjustment is not included in income but is reported as a separate component of equity.
Deferred revenue	All premium income is recorded as revenue when due. The anticipated costs of future services are included within actuarial liability calculations.	For universal life and investment-type contracts, fees charged to policyholders relating to future services to be provided are recorded as deferred revenue and are amortized to income in the same manner as DAC.

	CANADIAN GAAP	U.S. GAAP
Business acquisitions and goodwill	The actuarial liabilities assumed on acquisition of a business are valued based on accepted actuarial practice following the PPM of accounting, including the use of best estimate assumptions as at the date of acquisition. Goodwill represents the excess of cost over the estimated value of the net assets acquired as at the date of acquisition.	The actuarial liabilities assumed on acquisition of a business are valued in accordance with the policies described in the Actuarial Liabilities discussion using current assumptions as at the date of acquisition. The present value of future profits on the in-force business acquired is recognized as an intangible asset and is amortized over future periods, on a basis consistent with the amortization of DAC as described above. Goodwill represents the excess of cost over the sum of the estimated fair value of net assets, including the present value of future profits on the in-force business acquired.

(v) The following table provides a general review of the material presentation differences between Canadian GAAP and U.S. GAAP.

	CANADIAN GAAP	U.S. GAAP
Premium income	Premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Statement of Net Income.	Premiums collected on universal life and investment contracts (such as annuities) are not reported as revenue in the Consolidated Statement of Net Income but are recorded as deposits to policyholders' account balances. Fees assessed against the policyholders relating to the contracts are recognized as revenue.
Reinsurance	Reinsurance recoverables from ceded contracts are recorded as an offset against actuarial liabilities.	Reinsurance recoverables are presented on a gross basis as a separate balance sheet asset, rather than netted against the related liabilities.
Segregated funds assets and liabilities	Segregated funds are managed separately from the general fund of the Company. Therefore, they are reported separately from the general fund assets and liabilities on the Consolidated Balance Sheet.	Segregated funds assets and liabilities are also separately presented in summary lines on the balance sheet, titled "separate accounts".
Statement of cash flows	The cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity.	The cash flows from investment contracts are disclosed as a financing activity.
Equity	To reflect the demutualization of Canada Life, equity is presented on a continuity of interest basis and, as such, surplus is reclassified to retained earnings net of the demutualization and initial public offering costs. Shares issued to policyholders are recorded at nominal value, and shares issued in a Treasury offering are recorded as proceeds received net of share issuance costs in the Consolidated Balance Sheet.	Surplus is reclassified to share capital net of share issuance costs. Shares issued in a Treasury offering are recorded as proceeds received net of share issuance costs. Costs incurred to effect the demutualization of Canada Life are expensed as an extraordinary item in the Consolidated Statement of Net Income.

(d) Condensed consolidated balance sheet

The following balance sheet items of the Company, as at December 31, 2000 and 1999, reflect the impact of valuation, income recognition and presentation differences between Canadian GAAP and U.S. GAAP.

	2000		1999	
(in millions of Canadian dollars)	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
ASSETS				
Bonds	$ 17,681	$ 18,421	$ 16,400	$ 16,638
Mortgages	7,583	7,583	7,117	7,117
Common and preferred stocks	2,002	2,418	1,868	2,510
Real estate	851	537	974	496
Other investments	3,006	3,011	2,648	2,634
Deferred acquisition costs	–	1,318	–	1,220
Future income taxes	445	269	543	360
Reinsurance deposits and amounts recoverable	105	411	187	443
Other assets	1,039	1,605	991	1,643
Total assets	$ 32,712	$ 35,573	$ 30,728	$ 33,061
Segregated funds*	$ 22,383	$ 22,383	$ 21,875	$ 21,875
LIABILITIES AND EQUITY				
Actuarial liabilities	$ 25,242	$ 29,238	$ 23,721	$ 27,067
Other policy liabilities	1,205	1,106	1,332	1,220
Net deferred gains	1,543	–	1,326	–
Future income taxes	–	146	4	81
Other liabilities	1,021	778	918	661
Subordinated debentures	550	550	550	550
Equity	3,151	3,755	2,877	3,482
Total liabilities and equity	$ 32,712	$ 35,573	$ 30,728	$ 33,061
Segregated funds*	$ 22,383	$ 22,383	$ 21,875	$ 21,875

**U.S. GAAP terminology is separate accounts.*

(e) Condensed consolidated statement of net income

The following statement of net income items of the Company for the years ended December 31, 2000 and 1999 reflect the impact of the valuation, income recognition and presentation differences between Canadian GAAP and U.S. GAAP.

	2000		1999	
(in millions of Canadian dollars)	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
REVENUES				
Premium income	$ 4,676	$ 3,569	$ 4,821	$ 3,682
Net investment income	2,306	2,046	2,321	2,028
Realized investment gains	–	749	–	153
Fee and other income	484	712	393	494
	7,466	7,076	7,535	6,357
EXPENDITURES				
Payments to policyholders and beneficiaries	4,924	3,893	4,750	3,651
Increase in actuarial liabilities	672	1,179	1,133	1,410
Expenses, including commissions, interest and premium taxes	1,278	1,135	1,204	1,198
	6,874	6,207	7,087	6,259
Net income before income taxes	592	869	448	98
Income taxes	211	365	128	76
Net income	$ 381	$ 504	$ 320	$ 22

(f) Additional information required to be reported under U.S. GAAP

(i) Deferred acquisition costs

Changes in deferred acquisition costs were as follows:

(in millions of Canadian dollars)	2000	1999
Balance, beginning of year	$ 1,220	$ 997
Capitalization	277	230
Accretion of interest	99	91
Amortization	(147)	(184)
Effect of net unrealized gains and losses on bonds and stocks	(126)	165
Disposition	(6)	–
Foreign currency translation adjustment	1	(79)
Balance, end of year	**$ 1,318**	$ 1,220

(ii) Investments

The net unrealized investment gains (losses), which are included in the Consolidated Balance Sheet as a component of equity, were as follows:

(in millions of Canadian dollars)	2000	1999
Gross unrealized gains	$ 1,721	$ 1,751
Gross unrealized losses	(328)	(540)
Effect on deferred acquisition costs	(192)	(66)
Effect on actuarial liabilities	(530)	(237)
Effect on future income taxes	(34)	(132)
Total	**$ 637**	$ 776

(g) Newly issued accounting statements

U.S. Financial Accounting Standards Board (FASB) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by FASB statements 137 and 138, is effective for fiscal periods beginning after June 15, 2000. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Statement does not form part of Canadian GAAP, and, therefore, would not impact the Company's reported net income calculated on this basis. However, it could impact the Company's reconciliation of Canadian net income to U.S. GAAP net income and related disclosures. Based on the Company's derivative position at December 31, 2000, the Company estimates that upon adoption on January 1, 2001, it will record an increase in other comprehensive income from the cumulative effect of an accounting change of approximately $9 million. The Company has not yet completed its review of insurance contracts for embedded derivatives.

Embedded derivatives, if any, will be recorded as assets or liabilities at their fair value as at January 1, 2001 and marked to market through earnings thereafter.

(iii) Earnings per share

(in millions of Canadian dollars, except per share amounts)	2000	1999
Shareholders' net income[1]	$ 504	$ 22
Weighted daily average number of shares outstanding	160.4	160.4
Basic earnings per share	$ 3.14	$ 0.14

[1] *Pro forma earnings per share have been calculated assuming net income attributable to shareholders was $504 million ($22 million in 1999) and shares issued during 1999 were issued January 1.*

21. COMPARATIVE FIGURES

The 1999 comparative figures have been reclassified to conform to presentation changes adopted in 2000.

The Canada Life Assurance Company
Consolidated Financial Statements and Notes

APPOINTED ACTUARY'S REPORT

TO THE POLICYHOLDERS, SHAREHOLDER AND DIRECTORS
OF THE CANADA LIFE ASSURANCE COMPANY:

I have valued the policy liabilities of The Canada Life Assurance Company for its Consolidated Balance Sheet as at December 31, 2000 and their change in its Consolidated Statement of Net Income and the Consolidated Statement of Equity for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the Consolidated Financial Statements fairly present the results of the valuation.

Toronto, Canada
February 6, 2001

D. A. Loney
Fellow, Canadian Institute of Actuaries

AUDITORS' REPORT

TO THE POLICYHOLDERS, SHAREHOLDER AND DIRECTORS
OF THE CANADA LIFE ASSURANCE COMPANY:

We have audited the Consolidated Balance Sheets of The Canada Life Assurance Company and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2000 and 1999 and the Consolidated Statements of Net Income, Equity, Cash Flows, and Changes in Segregated Funds for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company and of the segregated funds as at December 31, 2000 and 1999 and the results of its operations and its cash flows and changes in segregated funds for the years then ended in accordance with accounting principles generally accepted in Canada including the accounting requirements of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP

Toronto, Canada
February 6, 2001

Chartered Accountants

Consolidated Statement of Net Income

For the year ended December 31 *(in millions of Canadian dollars)*	2000	1999
REVENUES		
Premium income		
Participating insurance and annuities	$ 786	$ 831
Non-participating:		
Annuities	1,548	1,769
Individual life and health insurance	674	625
Group life and health insurance	1,391	1,277
Reinsurance	153	202
General insurance	124	117
	4,676	4,821
Net investment income *(note 6(c))*	2,305	2,321
Fee and other income *(notes 2(l) and 5(a))*	484	393
	7,465	7,535
EXPENDITURES		
Payments to policyholders and beneficiaries		
Life, health and general benefits	1,670	1,560
Annuity payments	1,128	1,032
Maturities, surrender payments and other	1,837	1,872
Participating policyholder dividends	289	286
	4,924	4,750
Increase in actuarial liabilities *(note 7(a))*	672	1,133
Commissions	341	344
General expenses	811	723
Premium taxes	63	57
Interest expense *(note 8)*	39	42
	6,850	7,049
Net income before income taxes and goodwill expense	615	486
Income taxes *(note 9)*	210	128
Net income before goodwill expense	405	358
Goodwill expense *(notes 2(j) and 9(d))*	24	38
Net income	381	320
Participating policyholders' net loss	(4)	(1)
Shareholder's net income *(note 13(a))*	$ 385	$ 321

(see accompanying notes)

As at December 31 *(in millions of Canadian dollars)*	2000	1999
ASSETS		
General fund		
Invested assets *(note 6(a))*		
Bonds	$ 17,681	$ 16,400
Mortgages	7,583	7,117
Common and preferred stocks	2,002	1,868
Real estate	851	974
Policy loans	988	942
Short-term investments	373	119
Cash and cash equivalents *(note 2(m))*	1,047	912
Other	594	673
Total invested assets	31,119	29,005
Premiums receivable	160	203
Investment income due and accrued	388	363
Goodwill *(note 2(j))*	151	173
Other assets *(note 9(c))*	881	972
Total general fund	$ 32,699	$ 30,716
Segregated funds	$ 22,383	$ 21,875
LIABILITIES AND EQUITY		
General fund		
Policy liabilities		
Actuarial liabilities *(notes 3 and 7)*	$ 25,242	$ 23,721
Benefits payable and provision for unreported claims	449	561
Policyholders' amounts left on deposit	428	441
Provision for future policyholder dividends and experience rating refunds	328	330
Total policy liabilities	26,447	25,053
Net deferred gains *(note 6(d))*	1,543	1,326
Other liabilities *(note 10)*	1,021	922
	29,011	27,301
Subordinated debentures *(note 8)*	550	550
Equity		
Participating policyholders' equity	44	47
Shareholder's equity		
Share capital *(note 11)*	57	57
Retained earnings	3,037	2,761
	3,138	2,865
Total general fund	$ 32,699	$ 30,716
Segregated funds	$ 22,383	$ 21,875

(see accompanying notes)

On behalf of the Board:

Da Nield

D. A. Nield
Chairman of the Board,
President and Chief Executive Officer

T. Iain Ronald
Chairman of the Audit and
Risk Management Committee

For the year ended December 31 *(in millions of Canadian dollars)*	2000				1999
	Participating policyholders' equity	Shareholder's retained earnings	Share capital	Total	Total
Balance, beginning of year	$ 49	$ 2,819	$ 57	$ 2,925	$ 2,599
Demutualization cost, net of tax	–	–	–	–	(51)
Net income prior to demutualization *(note 13(a))*	–	–	–	–	249
Balance, at demutualization	–	–	–	–	2,797
Issue of common shares *(notes 11 and 13)*	–	–	–	–	57
Net income (loss) subsequent to demutualization *(note 13(a))*	(4)	385	–	381	71
Dividends paid to shareholder	–	(78)	–	(78)	–
Balance, end of year	$ 45	$ 3,126	$ 57	$ 3,228	$ 2,925
Currency translation account					
Balance, beginning of year	$ (2)	$ (58)	$ –	$ (60)	$ 95
Change prior to demutualization	–	–	–	–	(92)
Balance, at demutualization	–	–	–	–	3
Change subsequent to demutualization	1	(31)	–	(30)	(63)
Balance, end of year	$ (1)	$ (89)	$ –	$ (90)	$ (60)
Total equity	$ 44	$ 3,037	$ 57	$ 3,138	$ 2,865

(see accompanying notes)

For the year ended December 31 *(in millions of Canadian dollars)*	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 381	$ 320
Items not affecting cash and cash equivalents		
Increase in actuarial liabilities and other policy liabilities	673	1,150
Amortization of net deferred gains and amortization of net discounts on bonds and mortgages	(336)	(352)
Other, including future income taxes	69	44
	787	1,162
Net change in other operating assets and liabilities		
Other assets	16	–
Other liabilities	(22)	(290)
	(6)	(290)
Increase due to operating activities	781	872
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales, maturities and scheduled redemptions of:		
Bonds	9,836	19,730
Mortgages	3,460	3,811
Common and preferred stocks	1,223	2,542
Real estate	394	111
Other investments	174	431
Purchases and issues of:		
Bonds	(10,384)	(20,788)
Mortgages	(3,781)	(3,949)
Common and preferred stocks	(1,116)	(2,590)
Real estate	(156)	(104)
Other investments	(105)	(284)
Short-term investments	(251)	94
Policy loans	(27)	(5)
Acquisition *(notes 5(c) and 5(d))*		
Purchase price	–	(163)
Cash and cash equivalents	176	252
Decrease due to investing activities	(557)	(912)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank loans and mortgages on real estate	(3)	(38)
Dividends paid to common shareholder	(78)	–
Issue of common shares *(notes 11 and 13)*	–	57
Demutualization cost prior to income tax provisions	–	(58)
Decrease due to financing activities	(81)	(39)
Effect of changes in exchange rates on cash and cash equivalents	(8)	(58)
Net increase (decrease) in cash and cash equivalents for the year	135	(137)
Cash and cash equivalents, beginning of year	912	1,049
Cash and cash equivalents, end of year	$ 1,047	$ 912
Supplementary disclosure of cash flow information:		
Interest paid on subordinated debentures and other liabilities	$ 39	$ 42
Income taxes paid, net of refunds	$ 97	$ 182

(see accompanying notes)

Consolidated Statement of Changes in Segregated Funds

For the year ended December 31 *(in millions of Canadian dollars)*	2000	1999
ADDITIONS TO SEGREGATED FUNDS		
Premiums and transfers from the general fund	$ 3,692	$ 2,737
Net investment income	636	579
Acquisition of segregated fund business	–	767
Net (decrease) increase in fair value of investments	(488)	3,147
	3,840	7,230
DEDUCTIONS FROM SEGREGATED FUNDS		
Withdrawals, benefit payments and transfers to the general fund	2,690	2,212
Operating expenses	369	345
Tax (recovery) provision	(28)	117
Currency translation adjustment	301	1,353
	3,332	4,027
Net additions to segregated funds for the year	508	3,203
Segregated funds, beginning of year	21,875	18,672
Segregated funds, end of year	$ 22,383	$ 21,875

(see accompanying notes)

Consolidated Statement of Segregated Funds Net Assets

As at December 31 *(in millions of Canadian dollars)*	2000	1999
Bonds	$ 2,445	$ 2,277
Mortgages	8	1
Common and preferred stocks	18,247	17,921
Real estate	747	666
Cash and short-term investments	1,211	1,384
Investment income due and accrued	40	53
Tax liability	(63)	(296)
Due to brokers and others	(252)	(131)
	$ 22,383	$ 21,875

(see accompanying notes)

1. NATURE OF OPERATIONS

The Canada Life Assurance Company (CLA) offers insurance and other protection and wealth management products and services to individuals and groups, including reinsurance services, primarily in Canada, the United Kingdom, the United States and the Republic of Ireland; and in several other jurisdictions including Hong Kong, Macau, Bermuda, Bahamas, Brazil and Germany. In addition, CLA offers unit trusts (comparable to mutual funds) in the United Kingdom.

CLA is a wholly-owned subsidiary of Canada Life Financial Corporation (CLF) which was incorporated on June 21, 1999. CLA demutualized on November 4, 1999. See note 13 for a description of further changes as a result of demutualization.

2. SIGNIFICANT ACCOUNTING POLICIES

CLA prepares its Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (GAAP) for life insurance enterprises, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI). There are no differences between GAAP and OSFI accounting requirements.

The significant accounting policies followed in the preparation of these Consolidated Financial Statements are summarized below.

(a) Basis of consolidation

These financial statements consolidate the operating results and financial position of CLA and its subsidiaries.

(b) Valuation of invested assets held for the general fund

(i) Bonds and mortgages

Bonds, including asset-backed fixed term securities, and mortgages are carried at amortized cost.

The difference between the proceeds on the sale of a bond or mortgage prior to maturity and its carrying value is considered to be an adjustment of future portfolio yield. This difference is deferred on the Consolidated Balance Sheet and amortized to net income over the remaining term to maturity.

(ii) Stocks and real estate

Portfolio investments in stocks and real estate, which include Company-occupied premises, are carried at a value, which is adjusted toward fair value each year. The adjustment for stocks is 15% per annum of the difference between carrying value and year-end fair value. The fair value adjustment for real estate is 10% per annum of the difference between carrying value and appraised value. Appraised value is determined annually based on a combination of internal appraisals established by CLA and independent appraisals. All real estate properties are independently appraised at least once every three years.

Net realized gains and losses on the disposal of stocks and real estate are deferred on the Consolidated Balance Sheet and are amortized to net income on a declining balance basis at 15% per annum for stocks and at 10% per annum for real estate.

(iii) Policy loans

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(iv) Other invested assets

Other invested assets generally include CLA's investment in equipment leases, limited partnerships, and equity investments in which CLA has the ability to exercise significant influence. Equipment leases are carried at cost less accumulated depreciation. Equity investments and limited partnerships are carried at cost plus CLA's pro rata share of the investees' net income (loss), less any distributions paid to CLA during the year.

(v) Impaired investments and provisions for losses

Impaired investments include all loans with payments of 90 days or more in arrears unless their repayment has been insured by a government authority or representative thereof. Impaired investments also include loans, which are not in arrears, but where management has determined that an impairment in value exists.

The carrying value of CLA's investment in a bond or mortgage is reduced by a specific provision for loss to the extent an impairment in value is deemed to exist. A specific provision for loss is established whenever there is a decline in the value of a bond, which is other than temporary, or when the recovery of the

principal and accrued interest on a mortgage is in doubt and the value of the underlying security is also impaired. A specific provision for loss is only reduced as a result of a write-off or sale of the impaired investment, or if the conditions that caused the impairment no longer exist. Accrual of interest is discontinued and previously accrued interest is reversed on impaired bonds and impaired mortgages where payments are 90 days or more in arrears.

Property that is acquired due to a mortgage foreclosure and held for resale is classified as real estate and is valued at the lower of the amortized cost of the mortgage at the time of foreclosure and net realizable value of the property. Any losses on foreclosure and subsequent adjustments to net realizable value are recognized in net income immediately.

The carrying value of the stock portfolio or the real estate portfolio is written down to fair value immediately if there is other than a temporary decline in the value of either portfolio. CLA treats the stock and real estate portfolios as separate portfolios for the purpose of assessing whether permanent impairment exists.

In addition to specific provisions noted above for existing asset impairments, CLA provides for potential future asset defaults through the reduction of the assumed investment yields used in the calculation of the actuarial liabilities as disclosed in note 3(a) and as required by the Canadian Institute of Actuaries (CIA) and OSFI.

(c) Fair value

(i) Bonds and mortgages

Fair value of publicly traded bonds and asset-backed fixed term securities is determined using quoted market prices. The fair value of bonds and mortgages that are not publicly traded is determined by discounting the expected future cash flows related to these loans at market interest rates.

(ii) Common and preferred stocks

Fair value of common and preferred stocks is determined using quoted market prices. The fair value of common and preferred stocks that are not publicly traded is determined by discounting expected future cash flows at risk-adjusted rates of return.

(iii) Real estate

The fair value of real estate is determined based on the appraised value as described in note 2(b)(ii).

(iv) Other invested assets and policy loans

The fair value is generally estimated to equal carrying value for other invested assets and policy loans.

(v) Subordinated debentures

The fair value of CLA's subordinated debentures is determined based on the value in the market for equivalently rated securities of similar term.

(d) Segregated funds

CLA manages certain funds, which are segregated from the general fund of CLA. This business includes Canadian segregated annuity funds; unit-linked life insurance and annuity business in the United Kingdom and the Republic of Ireland; and variable annuity separate account business in the United States. The net assets of these funds are carried at fair value, and a corresponding amount is reported as a liability.

(e) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars using the rates of exchange in effect at the balance sheet date, and revenues and expenditures are translated into Canadian dollars at average rates of exchange during the year.

CLA's Currency Translation Account arises from the translation of its self-sustaining foreign operations. Unrealized foreign currency gains and losses arising on the translation of the accounts of CLA's foreign operations and on forward foreign exchange agreements, which are used as a hedge of the exposure of CLA's investments in foreign operations, are recorded as a direct adjustment to the Currency Translation Account, which is a separate component of equity on the Consolidated Statement of Equity.

(f) Income taxes

CLA uses the liability method of tax allocation. Future income tax assets and liabilities reflect the net tax effects of temporary differences between assets and liabilities reported for financial statement purposes and those reported for income tax purposes.

(g) Employee future benefit liabilities

CLA maintains defined benefit pension plans and provides other post-retirement benefits such as post-retirement life, health and dental insurance benefits for its employees and agents. The assets supporting the trusteed pension plans of CLA are held in separate

trusteed pension funds. The remaining benefits are included in other liabilities and are supported by general fund assets of CLA.

Pension and other post-retirement benefit costs for the year are based on the estimated benefits earned by the employees and agents during the year. Pension plan surplus or deficit changes in assumptions and plan amendments, as well as experience gains and losses on post retirement benefits, are amortized to income over the expected average remaining service life of plan members.

On January 1, 2000, CLA adopted, on a prospective basis, the new recommendations issued by the Canadian Institute of Chartered Accountants (CICA) on accounting for Employee Future Benefits. The measurement of the obligations for Employee Future Benefits, both before and after January 1, 2000, are generally consistent with two major exceptions. Under the new policy, the accrued benefit obligation for 2000 and on will be determined using a market rate of interest. Previously, a long term interest rate was used. Additionally, experience gains and losses on post-retirement benefits will be amortized into income in future periods. In the past these gains and losses were included in income in the year in which they occurred. The effect of these changes on current period net income and other liabilities was considered to be immaterial.

(h) Derivative financial instruments

CLA utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Gains and losses resulting from these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.

(i) Reinsurance

CLA's premium income, payments to policyholders and beneficiaries, actuarial liabilities and increase in actuarial liabilities are all shown net of amounts ceded to, or including amounts assumed from, other insurers.

(j) Goodwill

Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. Goodwill is generally amortized to income on a straight-line basis over 10 years.

Management annually assesses the recoverability of unamortized goodwill. Unamortized goodwill that is attributed to economies of scale to be realized on the integration of businesses acquired is charged to income to the extent it is no longer recoverable from the expected future unrealized benefit of such economies of scale. On this basis, unamortized goodwill attributed to economies of scale is charged to income immediately when the economies of scale are either recognized in the valuation of the liabilities or are no longer expected to occur. The recoverability of other goodwill is assessed based on discounted future cash flow projections (not including future economies of scale) from the businesses acquired.

(k) Gross premiums

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

(l) Fee and other income

Fee and other income primarily includes fees earned from the management of CLA's segregated funds assets and fees earned from investment management services provided by subsidiary companies.

(m) Cash and cash equivalents

Cash equivalents consist of investments with original maturities at acquisition of three months or less.

(n) Short-term investments

Short-term investments consist of investments with original maturities at acquisition exceeding three months, but less than twelve months.

(o) Change in accounting policy

Effective January 1, 2000, CLA changed its accounting for computer software acquisition and development costs. CLA now capitalizes and amortizes these costs over a period not exceeding 5 years for those projects that meet specific criteria. In prior years, CLA charged these costs to net income. The effect on prior periods net income and assets was not material.

3. SIGNIFICANT ACTUARIAL POLICIES

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions and policy maintenance expenses for all insurance and annuity policies in force with CLA. In addition, CICA Accounting Guideline 9 requires that the determination of the actuarial liabilities include the discounting effect of future income taxes relating directly to items included in the computation of these liabilities. CLA's Appointed Actuary is responsible for determining the amount of the actuarial liabilities such that sufficient funds will be available in the future to meet CLA's obligations. The valuation methods used by the Appointed Actuary are determined using generally accepted actuarial practices, according to standards established by the CIA.

The process of determining actuarial liabilities involves the estimation of the occurrence of events, which may or may not happen until many years in the future. The risks of misestimation vary in proportion to the length of the estimation period and the potential volatility of each assumption. Because of this, the setting of assumptions for these events is critical.

CLA's valuation methods involve the use of best estimates for the following assumptions: investment yields including asset defaults, mortality, morbidity, expenses, policyholder dividends, and policy lapses and surrenders. Actual experience is monitored against these assumptions to ensure that they remain reasonable. Any change in assumptions will cause a corresponding change in actuarial liabilities which is recognized in income immediately.

Because of the uncertainties involved in this process, best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. These margins increase actuarial liabilities and reduce the net income that otherwise would be recognized at the inception of a policy. Over time, actual experience will determine the adequacy of these margins and any excess margins will be released, resulting in an immediate decrease in actuarial liabilities and an increase in net income in that year.

The following is a description of the methods used to calculate the best estimates for the significant assumptions and the margins for adverse deviations used in the actuarial valuation process.

(a) Investment yields

CLA maintains specific funds of assets to back each major line of business in each country. The amount and timing of the cash flows relating to both the assets and actuarial liabilities in these funds are matched within predetermined limits, thereby reducing the uncertainty in selecting the valuation investment yields used in calculating the actuarial liabilities.

Assets in annuity funds consist primarily of bonds and mortgages. The investment yields used to value annuity liabilities are set based on studies of cash flows of both assets and liabilities under a number of economic scenarios. The scenarios include rapid increases or decreases in interest rates as well as changing patterns of these rates. Asset cash flows are reduced by expected future asset defaults, prepayments and expenses. Liability cash flows estimate policyholder actions that might arise as a result of changes in interest rates. The investment yields chosen for valuing annuities are generally based on the most adverse scenario tested.

For participating life insurance business, the valuation investment yields are based on the yields required to support the current dividend scales, with adjustments to allow for time lags in adjusting dividend rates, and deductions to allow for future asset defaults, investment expenses and taxes payable on investment income. For non-participating insurance business, the valuation investment yields are based on the gross yield of supporting assets and an assumption of a declining reinvestment interest rate environment, with deductions to allow for future asset defaults, investment expenses and taxes payable on investment income.

(b) Mortality

Mortality relates to the incidence of death. For life insurance, CLA conducts annual mortality studies for each country and line of business. CLA's assumptions are derived by expressing its own average experience over the last five years as a percentage of the most recent industry experience tables.

For major payout annuity blocks of business, CLA conducts annual mortality studies and the rates used are based on an average experience over the last five years. In the case of smaller blocks of annuity business where the experience is too small to be reliable, inter-company pension experience tables are used. Suitable projection factors reflecting industry experience are used in all cases to allow for the improving mortality trends.

(c) Morbidity

For people who are currently not disabled, the rate of morbidity refers to the incidence of sickness and accidents. The morbidity assumptions for individual policies are based on recent internal studies translated into various factors applied to standard industry morbidity tables. For group policies, the premium can be changed each year due to changing claims experience and, therefore, the liability is set equal to a portion of the premiums paid in advance.

For people who are disabled, the rate of morbidity refers to the termination of disability due to death or recovery. The termination assumptions are based on recent internal studies and translated into factors applied to standard industry tables.

(d) Expenses

Actuarial liabilities include amounts to provide for the costs of administering policies in force such as the cost of collecting premiums, processing and adjudicating claims, periodic communications with policyholders, related indirect expenses and a share of overhead costs. Allowances for expenses are based on CLA's most recent internal cost analysis, with adjustments to the current valuation year. The internal cost analysis is reviewed and updated annually. These expenses are projected into the future with allowances for inflation.

(e) Policyholder dividends

Policy liabilities include the present value of the estimated future payments of participating policyholder dividends including terminal bonus dividends for the United Kingdom and the Republic of Ireland. Dividends paid to participating policyholders are calculated in accordance with the dividend policy established by the Board of Directors.

(f) Policy lapses and surrenders

Although a policy contract may call for the payment of premiums over the full term of the policy, policyholders may choose not to continue to pay premiums, thereby allowing their policy to lapse. Policyholders may also choose to surrender their policy in return for the policy's cash surrender value. Policy termination rate assumptions are based on CLA's recent experience by country and line of business. For certain products, the actuarial liability decreases as policy termination rates increase. On such products, very low policy termination rates are assumed in establishing the liabilities.

(g) Margins for adverse deviations

As noted above, all assumptions used in the calculation of actuarial liabilities are based on best estimates. In addition, margins for adverse deviations are included in assumptions used in the actuarial valuation process. The range for these margins is prescribed in guidelines issued by the CIA. CLA's position within the range depends on the risk profile of the particular line of business. The majority of CLA's business is low risk, so that margins at the low end of the range, as prescribed by the CIA guidelines, are often justifiable. However, CLA often follows a more prudent practice of establishing margins generally close to the middle of the permissible range.

4. MEASUREMENT UNCERTAINTY AND RISKS

(a) Measurement uncertainty

Measurement uncertainty relates to the uncertainty in the determination of the amount at which an item is recognized in the Consolidated Financial Statements. As described in note 3, determination of the actuarial liabilities is complex, making these amounts potentially subject to the highest level of measurement uncertainty for CLA. Their valuation varies depending on the nature of the underlying products and on the variety of assumptions used for investment yields, mortality, morbidity, expenses, policyholder dividends, and policy lapses and surrenders. Given the long-term nature of actuarial liabilities and the incorporation of margins for adverse deviation into the assumptions used, a fluctuation in actual experience compared to any one assumption in the near term would generally not be expected to have a significant effect on the financial results.

Changes in those assumptions, which have had a significant impact on the calculation of the actuarial liabilities in 2000, have been

described in note 7(a). With respect to the remaining assumptions, either the impact on the actuarial liabilities was relatively minor, or no change in the assumption was required because the actual experience was generally in line with the assumption used.

(b) Interest rate risk

Interest rate risk is the risk that the economic value of CLA is adversely impacted by changes in interest rates. As interest rates change, the economic value of CLA's fixed interest assets and liabilities changes. For a perfectly matched portfolio of assets and liabilities, the change in the economic value of assets is offset by the change in the economic value of liabilities and the economic value of CLA is not affected. The degree of interest rate risk is measured by the mismatch between the assets and the liabilities of CLA. The maximum degree of mismatch permitted is set out in CLA's Investment Policy as approved by the Board of Directors.

The interest rate risk associated with CLA's annuity and pension products is of particular importance because these products constitute approximately 59% (61% in 1999) of CLA's general fund actuarial liabilities. The timing and amount of CLA's obligations under annuity and pension products can be determined with reasonable certainty and the mismatch positions of the assets supporting these liabilities is monitored quarterly to measure compliance with the limits set out in CLA's Investment Policy.

The following table shows the estimated amount of the future asset and liability cash flows associated with CLA's annuity and pension products that were in force at December 31 and reflects the appropriate repricing or maturity date. The cash flow gap between the assets and the liabilities is also included. These cash flows include the effect of any off-balance sheet derivative financial instruments CLA has entered into for asset/liability management purposes.

Two related methods are used by CLA to measure and monitor the interest rate risk associated with CLA's annuity and pension products.

(i) Duration mismatch

Duration is defined as the time weighted average life of an asset or liability and measures the sensitivity of the economic value of assets and liabilities to changes in interest rates. For example, the economic value of assets or liabilities with longer terms is more sensitive to changes in interest rates than the economic value of assets or liabilities with shorter terms. This is reflected in the duration measure. The degree of mismatch can be measured as the difference between the duration of assets and the duration of liabilities. When the duration of assets exceeds the duration of liabilities, an increase in interest rates will result in a decrease in economic value. Conversely, when the duration of assets is less than the duration of liabilities, a decrease in interest rates will result in a decrease in economic value.

For the year ended December 31:		Repricing or maturity date			
(in millions of Canadian dollars)	Less than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years
2000					
Assets	**$ 2,765**	**$ 7,573**	**$ 5,313**	**$ 6,603**	**$ 5,435**
Liabilities	**2,639**	**7,772**	**4,969**	**6,499**	**5,648**
Cash flow gap	**$ 126**	**$ (199)**	**$ 344**	**$ 104**	**$ (213)**
1999					
Assets	$ 2,621	$ 7,146	$ 4,781	$ 5,910	$ 4,616
Liabilities	2,613	7,262	4,453	5,814	4,865
Cash flow gap	$ 8	$ (116)	$ 328	$ 96	$ (249)

The following table indicates, in years, the duration mismatch that is associated with CLA's annuity and pension products as at December 31:

	2000	1999
Asset duration	**6.98**	6.54
Liability duration	**6.92**	6.47
Duration mismatch	**0.06**	0.07

(b) Net present value

In addition to duration mismatch, interest rate risk is also measured in terms of the net present value (NPV) effect of interest rate changes. First, the NPV of future asset cash flows less future liability cash flows is determined using the interest rates in effect at the reporting date. The NPV is then recalculated assuming an immediate 1% parallel increase in interest rates and an immediate 1% parallel decrease in interest rates. The resulting change in NPV represents a measure of the degree of interest rate risk associated with a 1% parallel change in interest rates.

The impact on the NPV of CLA's annuity and pension products of a 1% parallel change in interest rates, as at December 31, is shown in the following table:

(in millions of Canadian dollars)	2000	1999
NPV	**$ 394**	$ 322
Impact on NPV if interest rate changed +1%	**(56)**	(37)
Impact on NPV if interest rate changed –1%	**50**	31

The margins for adverse deviations set aside in the actuarial liabilities, as described in note 3(g) take account of adverse interest rate movements which are significantly more adverse than the parallel 1% change shown above.

(c) Credit risk

Credit risk is the risk of financial loss due to the failure of a debtor to honour its obligations to CLA.

Potential areas of significant concentration of credit risk include non-investment grade bonds and non-insured mortgages, which in 2000, amounted to $649 million and $6,709 million, respectively ($457 million and $6,348 million, respectively, in 1999) and represented 24% (22% in 1999) of the total invested asset portfolio. The carrying values of impaired non-investment grade bonds and non-insured mortgages in 2000, were $41 million and $17 million, respectively ($20 million and $42 million, respectively, in 1999) and represented less than 1% of the invested asset portfolio in both 2000 and 1999.

Credit risk associated with an individual counterparty is indicated by CLA's largest exposure to any one corporate entity's fixed term investments, including term preferred shares. CLA's largest exposure to any one corporate entity in 2000 was $187 million ($145 million in 1999).

CLA has made provisions in its Consolidated Balance Sheet for credit losses in two ways:

(i) Specific provisions for assets that are currently impaired have been included through reductions in the values of the underlying assets.

(ii) Provisions have been included in the actuarial liabilities for assets that may become impaired in the future.

The amounts for these provisions are identified in note 6(b).

CLA's exposure to credit risk relating to its off-balance sheet investments in derivative financial instruments is disclosed in note 17.

(d) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign exchange rates as compared to the Canadian dollar. It arises from currency mismatches between assets and liabilities and the cash flows therefrom and is due to CLA's foreign operations and the portion of its surplus maintained in foreign denominated assets.

CLA's exposure to foreign currency risk for its operating funds is minimal due to its policy of generally matching foreign denominated assets and their related cash flows to the foreign denominated liabilities they support.

CLA is also exposed to foreign currency risk as a result of foreign denominated assets supporting its surplus. This risk is partially hedged with the use of forward foreign exchange contracts.

A 1% strengthening of the Canadian dollar relative to the currencies in the foreign jurisdictions in which CLA operates would reduce shareholder's retained earnings by $22 million ($18 million in 1999) and net income by $3 million ($2 million in 1999) after taking into account the effect of any off-balance sheet derivative financial instruments that CLA has entered into for purposes of hedging against adverse changes in foreign exchange rates.

(e) Liquidity risk

Liquidity risk refers to the ability of CLA to meet its obligations to policyholders and creditors as they fall due. CLA reduces its exposure to liquidity risk by closely matching the terms and cash flows of its assets and liabilities. Additionally, CLA maintains an appropriate level of liquidity by ensuring that a prescribed percentage of its assets are held in marketable investments.

The sources of liquidity are as follows:

(in millions of Canadian dollars)	2000	1999
Cash and short-term investments	$ 1,420	$ 1,031
Senior government securities	5,020	5,708
Other government securities and corporate bonds	7,549	6,997
Insured mortgages	874	769
Total	**$ 14,863**	$ 14,505

At December 31, 2000, CLA had $311 million ($283 million in 1999) available from the unused portion of revolving lines of credit.

Liquidity must be maintained, in particular, to provide for life insurance policies, which permit policyholders to surrender their policies for a guaranteed surrender value at any time. Some annuity policies may also be surrendered prior to the end of the stated maturity dates for a value determined by the terms of the policy. The aggregate amount of outstanding cash surrender values if all policies had been surrendered as at December 31, 2000 was $15,472 million ($15,714 million in 1999). Actual cash surrenders during the year amounted to $1,671 million ($1,647 million in 1999). Policyholder dividends left on deposit with CLA can be withdrawn on demand at any time, and as at December 31, 2000 totalled $299 million ($306 million for 1999). Policyholder dividends withdrawn during the year totalled $36 million ($31 million for 1999).

(f) Claims and reinsurance risk

Claims risk is the risk that CLA will incur excessive mortality and morbidity losses on any one policy or group of policies. In addition to establishing appropriate criteria to determine the insurability of applicants, CLA manages its claims risk by limiting its exposure to life and health claims. The claims risk for CLA is limited to its retention limit of $5 million for any individual life claim and various limits for health claims, not exceeding this limit depending on the type of coverage. To ensure that these limits continue to be appropriate, management and the Board of Directors periodically review the policies relating to the maximum risks CLA will assume. Claims in excess of these retention limits are reinsured to outside reinsurers. CLA also maintains catastrophic reinsurance coverage with outside reinsurers of up to $90 million in the event of a loss of three or more lives in the same catastrophe.

Reinsurance arrangements do not relieve CLA of its primary obligations to its policyholders. Therefore, CLA may be exposed to credit risk relating to its reinsurers. CLA's exposure to this credit risk is the total amount due from all reinsurers as at December 31, 2000 of $105 million ($187 million in 1999).

The effects of reinsurance on premium income were as follows:

(in millions of Canadian dollars)	2000	1999
Direct written	$ 5,007	$ 4,929
Reinsurance assumed	387	470
Reinsurance ceded	(718)	(578)
Net premium income	**$ 4,676**	$ 4,821

5. ACQUISITIONS AND DISPOSITION

(a) On December 31, 2000, CLA sold its 100% interest in its general insurance subsidiary, Canada Life Casualty Insurance Company ("Casualty").

For the year ended December 31, 2000, the Consolidated Statement of Net Income includes Casualty's revenue of $132 million ($126 million for 1999) and net income of $10 million ($7 million for 1999). As at December 31, 2000, the Consolidated Balance Sheet includes Casualty's assets of nil ($232 million for 1999). The proceeds received on this sale were $80 million. The sale resulted in a gain of $18 million, net of tax. The gain is included in fee and other income on the Consolidated Statement of Net Income.

(b) On December 31, 2000 the Company purchased group savings business from a Canadian chartered bank which consists of assets under administration of $5,240 million. This business administers defined contribution plans, group RSP plans, profit sharing plans and stock plans. Goodwill created as a result of this transaction was immaterial. The assets under

administration that were acquired are neither general fund or segregated funds assets and consequently are not included in the Consolidated Balance Sheet.

(c) On August 1, 2000, CLA acquired through assumption reinsurance, Confederation Life Insurance Company's Canadian payout annuity business. Under the agreement, the assets that were transferred to CLA to support future annuity payments were $717 million. Goodwill was not created as a result of this transaction.

(d) On January 1, 1999, CLA acquired through various reinsurance contracts, most of the business of Crown Life Insurance Company ("Crown Life") and the shares of Crown Life Insurance Company of Canada ("Crown Canada"), its wholly-owned subsidiary. Crown Canada was subsequently amalgamated with CLA. The general fund assets acquired totalled $4,892 million and the general fund liabilities assumed totalled $4,710 million. Segregated fund assets and liabilities acquired totalled $767 million. Net assets acquired were $182 million and acquisition costs were $58 million. The total consideration paid in cash was $163 million and $39 million of goodwill was recorded on the acquisition.

CLA also has the option, or under certain circumstances may be required, to acquire the common shares of Crown Life at any time after January 1, 2004. The purchase price for these shares would be the fair value of the assets backing Crown Life's common shareholders' equity. CLA also has the option, or may be required, to acquire, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004. If this option were exercised, CLA would receive assets with a value equal to the liabilities assumed. In certain circumstances, CLA may exercise either of these options after July 1, 2000.

6. ANALYSIS OF GENERAL FUND INVESTMENTS

(a) Invested assets

(in millions of Canadian dollars)	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains	Unrealized losses	Fair value of investments
2000						
Bonds						
Government – Canada	$ **3,021**	$ **–**	$ **3,021**	$ **185**	$ **(9)**	$ **3,197**
Government – foreign	**3,626**	**–**	**3,626**	**267**	**(17)**	**3,876**
Corporate and other	**10,993**	**41**	**11,034**	**528**	**(214)**	**11,348**
Mortgages						
Residential	**2,595**	**–**	**2,595**	**169**	**(6)**	**2,758**
Non-residential	**4,971**	**17**	**4,988**	**271**	**(23)**	**5,236**
Common and preferred stocks	**1,988**	**14**	**2,002**	**504**	**(88)**	**2,418**
Real estate (including foreclosed properties)	**840**	**11**	**851**	**138**	**(47)**	**942**
Other invested assets	**2,999**	**3**	**3,002**	**5**	**–**	**3,007**
Total	$ **31,033**	$ **86**	$ **31,119**	$ **2,067**	$ **(404)**	$ **32,782**
1999						
Bonds						
Government – Canada	$ 2,646	$ –	$ 2,646	$ 95	$ (100)	$ 2,641
Government – foreign	4,040	–	4,040	158	(107)	4,091
Corporate and other	9,690	24	9,714	452	(260)	9,906
Mortgages						
Residential	2,531	–	2,531	102	(39)	2,594
Non-residential	4,544	42	4,586	184	(68)	4,702
Common and preferred stocks	1,854	14	1,868	714	(72)	2,510
Real estate (including foreclosed properties)	964	10	974	220	(44)	1,150
Other invested assets	2,642	4	2,646	6	(1)	2,651
Total	$ 28,911	$ 94	$ 29,005	$ 1,931	$ (691)	$ 30,245

Invested assets of CLA with a carrying value of $27,475 million ($25,637 million for 1999) and a fair value totalling $29,028 million ($26,670 million for 1999), as well as the cash flows derived therefrom, support the actuarial and other liabilities of the operating funds, participating policyholders' equity and the non-operating fund liabilities disclosed in note 7(c). Changes in the fair value of these assets generally will not cause a corresponding change in equity.

Invested assets with a carrying value of $3,644 million ($3,368 million for 1999) and a fair value totalling $3,754 million ($3,575 million for 1999) support the shareholder's equity and subordinated debentures of CLA. Changes in the fair value of these assets would result in unrealized gains or losses, which would ultimately cause a corresponding change in shareholder's equity. In addition, CLA has recorded net deferred realized gains relating to the sale of assets supporting shareholder's equity of $353 million ($183 million for 1999). These net deferred realized gains and the unrealized gains or losses will be amortized into earnings in the future in accordance with the accounting policies described in note 2(b).

The carrying value and fair value of bonds, by contractual maturity are as follows:

(in millions of Canadian dollars)	2000 Carrying value	2000 Fair value	1999 Carrying value	1999 Fair value
Due in one year or less	$ 818	$ 790	$ 911	$ 914
Due after one year through five years	4,012	4,051	3,502	3,491
Due after five years through 10 years	3,823	3,901	3,292	3,304
Due after 10 years	9,028	9,679	8,695	8,929
Total	$ 17,681	$ 18,421	$ 16,400	$ 16,638

(b) Provisions for losses

The carrying values of impaired investments have been reduced by the following provisions for losses:

(in millions of Canadian dollars)	2000	1999
Bonds	$ 20	$ 16
Mortgages	25	38
Common and preferred stocks	3	3
Real estate (including foreclosed properties)	2	12
Other invested assets	2	1
Total	$ 52	$ 70

The change in the provisions for losses for the year is as follows:

	2000	1999
Provisions for losses, beginning of year	$ 70	$ 96
Net decrease in provisions for losses on impaired investments *(note 6(c))*	(17)	(25)
	53	71
Effect of changes in currency translation rates	(1)	(1)
Provisions for losses, end of year	$ 52	$ 70

The net decrease in provisions for losses on impaired investments includes write-offs on restructured investments of $6 million ($1 million for 1999).

In addition to the above specific provisions, actuarial liabilities as at December 31, 2000 include $421 million ($338 million for 1999) to provide for potential future asset defaults.

(c) Net investment income

(in millions of Canadian dollars)	2000	1999
Interest	$ 1,977	$ 1,876
Dividends	49	60
Net rents	62	82
Amortized net gains from:		
Common and preferred stocks	153	178
Real estate	20	20
Bonds	74	101
Mortgages	10	10
Sundry	11	44
Losses on impaired investments:		
Net decrease in provisions for losses on impaired investments *(note 6(b))*	17	25
Write-offs and net realized losses on sale of impaired investments	(22)	(25)
Investment expenses	(46)	(50)
Total	$ 2,305	$ 2,321

(d) Net deferred gains

Net deferred gains are calculated in accordance with note 2(b) and include deferred realized gains and losses on the sale of investments. The balances are as follows:

(in millions of Canadian dollars)	2000	1999
Bonds	$ 944	$ 958
Mortgages	53	49
Common and preferred stocks	457	341
Real estate	89	(22)
Total	$ 1,543	$ 1,326

IARIAL LIABILITIES

actuarial liabilities

(in millions of Canadian dollars)	2000 Participating	2000 Non–participating	2000 Total	1999 Participating	1999 Non–participating	1999 Total
Balance, beginning of year	$ 4,795	$ 18,926	$ 23,721	$ 3,962	$ 15,652	$ 19,614
Set aside on new and existing business	418	292	710	365	727	1,092
Net change resulting from revised assumptions and refinements used in calculating certain liabilities*	3	(41)	(38)	(171)	212	41
	421	251	672	194	939	1,133
Acquisitions *(notes 5(c) and 5(d))*	–	714	714	724	3,236	3,960
Disposition *(note 5(a))*	–	(66)	(66)	–	–	–
Effect of changes in currency translation rates	(1)	202	201	(85)	(901)	(986)
Balance, end of year	$ 5,215	$ 20,027	$ 25,242	$ 4,795	$ 18,926	$ 23,721

**Included in actuarial liability releases for 2000 were reductions of $54 million in Canadian annuity interest rate margins, $46 million in respect of Canadian individual insurance mortality and $23 million for refinements in liabilities held for the Isle of Man business in Canada Life International. Additionally, there was a further net release of $7 million in respect of a variety of other items. Partially offsetting these releases were reserve strengthenings of $29 million in Canada in respect of individual insurance lapses, an increase in Canada in respect of group annuity mortality of $21 million, an increase in Canada of $12 million due to refinements in methods arising from system changes, net of related changes in the provision for future taxes included in actuarial liabilities, and increases in U.K. group and individual health insurance in respect of future morbidity experience of $30 million.*

Included in actuarial assumption changes for 1999 is a reserve release of $12 million related to economies of scale on the integration of past U.K. acquisitions. In accordance with the accounting policy described in note 2(j), this amount is offset by a reduction to goodwill and does not impact net income. Significant reserve increases included $158 million with respect to compensation to certain U.K. pension policyholders under Phase II of the U.K. Financial Services Authority guidelines; $55 million for anticipated mortality improvement of U.K. annuity contracts; and $23 million in respect of guarantees offered under Canadian Segregated fund and U.S. Variable Annuity contracts. Partially offsetting these increases were reductions of $169 million in respect of certain individual life liabilities arising mainly from demutualization restructuring and $24 million related to lower expenses. Additionally, there was a further net reserve strengthening of $10 million in respect of various other items.

(b) Distribution of actuarial liabilities

(in millions of Canadian dollars)	Participating: Insurance and annuities	Non-participating: Annuities	Non-participating: Individual life and health insurance	Non-participating: Group life and health insurance	Non-participating: General insurance	Total
2000						
Canada	**$ 2,386**	**$ 6,594**	**$ 1,029**	**$ 1,096**	**$ –**	**$ 11,105**
United Kingdom	**1,182**	**3,094**	**210**	**284**	**–**	**4,770**
United States	**1,054**	**4,821**	**1,828**	**365**	**–**	**8,068**
Republic of Ireland	**279**	**235**	**282**	**17**	**–**	**813**
International and Reinsurance	**314**	**26**	**92**	**54**	**–**	**486**
Total	**$ 5,215**	**$ 14,770**	**$ 3,441**	**$ 1,816**	**$ –**	**$ 25,242**
1999						
Canada	$ 2,188	$ 6,256	$ 1,034	$ 1,068	$ 60	$ 10,606
United Kingdom	1,209	2,844	76	229	–	4,358
United States	881	4,729	1,626	336	–	7,572
Republic of Ireland	237	255	98	18	–	608
International and Reinsurance	280	24	221	52	–	577
Total	$ 4,795	$ 14,108	$ 3,055	$ 1,703	$ 60	$ 23,721

Actuarial liabilities have been reduced by reinsurance ceded as follows:

(in millions of Canadian dollars)	2000	1999
Canada	**$ 199**	$ 170
United Kingdom	**108**	80
United States	**21**	25
Republic of Ireland	**19**	20
International and Reinsurance	**107**	106
Total	**$ 454**	$ 401

(c) Carrying value of assets supporting each product line

(in millions of Canadian dollars)	Operating Funds: Participating – Insurance and annuities	Operating Funds: Non-participating – Annuities	Non-participating: Life and health insurance – Individual	Non-participating: Life and health insurance – Group	Equity, subordinated debentures and non-operating fund liabilities*	Total 2000	Total 1999
[illegible]							
Bonds	$ 1,620	$ 3,508	$ 723	$ 790	$ 605	**$ 7,246**	$ 6,668
Mortgages	461	2,954	204	358	9	**3,986**	3,764
Common and preferred stocks	243	35	2	2	105	**387**	445
Real estate (including foreclosed properties)	55	–	–	–	214	**269**	504
Other invested assets	465	395	65	282	173	**1,380**	1,125
All other assets	52	29	204	79	299	**663**	657
	$ 2,896	$ 6,921	$ 1,198	$ 1,511	$ 1,405	**$ 13,931**	$ 13,163
TED KINGDOM							
Bonds	$ 762	$ 2,135	$ 237	$ 275	$ 483	**$ 3,892**	$ 3,657
Mortgages	–	494	10	–	–	**504**	460
Common and preferred stocks	424	24	240	9	105	**802**	804
Real estate (including foreclosed properties)	109	275	–	–	111	**495**	394
Other invested assets	183	259	33	29	249	**753**	696
All other assets	21	151	41	24	172	**409**	417
	$ 1,499	$ 3,338	$ 561	$ 337	$ 1,120	**$ 6,855**	$ 6,428
[illegible]							
Bonds	$ 653	$ 2,763	$ 1,127	$ 221	$ 814	**$ 5,578**	$ 5,105
Mortgages	382	1,981	411	168	4	**2,946**	2,802
Common and preferred stocks	59	–	–	–	247	**306**	233
Real estate (including foreclosed properties)	–	–	6	–	34	**40**	40
Other invested assets	98	27	218	36	237	**616**	709
All other assets	42	140	102	42	60	**386**	389
	$ 1,234	$ 4,911	$ 1,864	$ 467	$ 1,396	**$ 9,872**	$ 9,278
EPUBLIC OF IRELAND							
Bonds	$ 152	$ 180	$ 195	$ 24	$ 84	**$ 635**	$ 528
Mortgages	–	–	–	–	–	**–**	1
Common and preferred stocks	142	82	158	–	125	**507**	386
Real estate (including foreclosed properties)	26	7	–	–	4	**37**	34
Other invested assets	62	2	4	(6)	51	**113**	20
All other assets	6	2	(8)	4	4	**8**	55
	$ 388	$ 273	$ 349	$ 22	$ 268	**$ 1,300**	$ 1,024
NTERNATIONAL AND REINSURANCE							
Bonds	$ 135	$ 17	$ 103	$ 75	$ –	**$ 330**	$ 442
Mortgages	82	11	27	27	–	**147**	90
Common and preferred stocks	–	–	–	–	–	**–**	–
Real estate (including foreclosed properties)	5	–	2	–	3	**10**	2
Other invested assets	113	6	15	2	4	**140**	96
All other assets	5	–	21	74	14	**114**	193
	$ 340	$ 34	$ 168	$ 178	$ 21	**$ 741**	$ 823
Total	$ 6,357	$ 15,477	$ 4,140	$ 2,515	$ 4,210	**$ 32,699**	$ 30,716

*Non-operating fund liabilities include employee and agent retirement benefit liabilities and other miscellaneous liabilities of the Company

8. SUBORDINATED DEBENTURES

(in millions of Canadian dollars)	Maturity	2000	1999
ISSUED IN 1996:			
Subordinated debentures bearing interest at a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90 day Bankers' Acceptance Rate plus 1%	2011	$ 250	$ 250
ISSUED IN 1998:			
Series 1 subordinated debentures bearing interest at a fixed rate of 5.8% until 2008 and, thereafter, at a rate equal to the Canadian 90 day Bankers' Acceptance Rate plus 1%*	2013	200	200
Series 2 subordinated debentures bearing interest at a fixed rate of 6.4%*	2028	100	100
Total		$ 550	$ 550

These were converted into public debentures on December 11, 1999

At December 31, 2000, the fair value of the subordinated debentures was $565 million ($536 million in 1999).

All of the above debentures constitute direct, unsecured and subordinated obligations of CLA and are redeemable at the option of CLA with the prior approval of OSFI. The subordinated debentures qualify as Tier 2B capital for Canadian regulatory purposes.

Interest expense relating to the subordinated debentures was $38 million ($38 million for 1999) and is included as part of interest expense in the Consolidated Statement of Net Income.

9. INCOME TAXES

(a) Income tax expense

Income taxes are as follows:

(in millions of Canadian dollars)	2000	1999
Current income taxes	$ 117	$ 147
Future income taxes relating to temporary differences	63	(19)
Future income taxes resulting from changes in tax rates	30	–
Total	$ 210	$ 128

(b) Reconciliation of income tax expense

The income tax expense is derived as follows:

(in millions of Canadian dollars)	2000	1999
Net income before income taxes and after goodwill expense	$ 591	$ 448
Expected provision for income taxes at the combined Canadian federal and provincial statutory rate of 44.25% (44.25% for 1999)	262	198
Adjusted for:		
Federal and provincial statutory rate changes given effect in 2000	30	–
Tax-exempt investment income	(21)	(15)
Foreign operations taxed at different rates and bases	(48)	(80)
Investment income tax	10	10
Large corporations and other capital taxes	3	3
Recognition of tax losses of prior years	(16)	–
Other	(10)	12
Income tax expense	$ 210	$ 128

(c) Future income taxes

Other assets include future tax assets of $436 million ($533 million in 1999). The net future tax assets (assets and liabilities in 1999) arise from temporary differences on the following items:

(in millions of Canadian dollars)	2000		1999	
	Future tax assets	**Future tax liabilities**	Future tax assets	Future tax liabilities
Investments	**$ 139**	**$ –**	$ 120	$ 69
Actuarial liabilities	**148**	**94**	294	66
Employee future benefits	**55**	**4**	69	2
Deferred acquisition costs	**164**	**–**	152	–
Other	**29**	**1**	37	6
Total	**$ 535**	**$ 99**	$ 672	$ 143

A portion of the undistributed earnings of non-Canadian subsidiaries will be taxed in Canada upon repatriation. CLA will recognize the future tax liability on these undistributed earnings at the time when management determines that they will be repatriated in the foreseeable future.

As at December 31, 2000, CLA has accumulated tax loss carry-forwards, primarily in Canada and the United Kingdom, totalling $329 million ($570 million in 1999). The future benefit of these tax loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $109 million ($202 million in 1999) in future tax assets. CLA will realize this benefit in future years through a reduction in current income taxes payable. These loss carryforwards are included in income tax returns that are subject to examination by various tax authorities and could be changed as a result of reassessment of these tax returns. The tax benefit of $30 million ($83 million in 1999) related to the accumulated loss carryforwards has not been recognized as a future tax asset.

(d) Goodwill

Goodwill expense is net of a tax recovery of $2 million for the year ended December 31, 2000 ($2 million in 1999).

10. OTHER LIABILITIES

Other liabilities are comprised of the following items:

(in millions of Canadian dollars)	2000	1999
Accounts payable	**$ 444**	$ 394
Employee future benefits *(note 14)*	**149**	163
Current income taxes	**174**	123
Premium taxes	**14**	9
Future tax liabilities	**–**	4
Bank loans and mortgages on real estate	**–**	4
Other	**240**	225
Total	**$ 1,021**	$ 922

11. SHARE CAPITAL

(a) Authorized:

(i) Preferred shares

There are six classes of non-voting authorized preferred shares issuable in series. The by-law authorizes the Board of Directors ("the Board"), prior to the issue of any series of preferred shares, to fix the other provisions attaching to the preferred shares of the series, subject to the provisions of CLA's by-laws and the Insurance Companies Act (Canada) ("the Act").

(ii) Common shares

There are an unlimited number of authorized voting common shares.

(b) Issued and outstanding:

(i) Preferred shares

No preferred shares are currently issued or outstanding.

(ii) Common shares *(see note 13)*

Common shares Issued and outstanding: *(in millions of Canadian dollars)*	2000		1999	
	Number of shares	**Share value**	Number of shares	Share value
Balance, beginning of year	**217**	**$ 57**	–	$ –
Shares issued to CLF	**–**	**–**	217	57
Balance, end of year	**217**	**$ 57**	217	$ 57

CLA's legal stated capital as at December 31, 2000 was $2.7 billion ($2.7 billion for 1999).

12. MINIMUM CAPITAL REQUIREMENTS AND RESTRICTIONS

CLA is regulated by OSFI as a Canadian insurance company. OSFI requires Canadian insurance companies to maintain minimum levels of capital and surplus with respect to their worldwide insurance operations in order to provide additional assurance with respect to future solvency. These minimum levels are calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR) issued by OSFI. CLA's policy is to maintain an MCCSR ratio well in excess of the minimum required level. At the end of 2000, the ratio was 205%. The 1999 ratio was 190%.

CLA's United States operations must also meet minimum Risk Based Capital requirements, which are similar in nature to the Canadian MCCSR. In each of the United Kingdom and the Republic of Ireland, CLA's operations must meet solvency requirements, which require admissible assets to exceed liabilities plus a minimum margin. CLA exceeds the minimum surplus and solvency requirements in all of the foreign jurisdictions in which it operates. CLA maintains sufficient assets in each jurisdiction to meet both its policyholder obligations and local minimum surplus and solvency requirements.

CLA's ability to meet its cash requirements and pay dividends on the common shares will depend on the receipt of dividends and other payments from its subsidiaries. CLA's insurance subsidiaries and branches are required to maintain solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of dividends, distributions or other payments that may be made by such subsidiaries and branches to CLA and to CLF.

13. DEMUTUALIZATION

CLA demutualized on November 4, 1999, whereby it converted from a mutual life insurance company to one with common shares. At the date of demutualization, CLA became a wholly-owned subsidiary of CLF by issuing 217 million common shares to CLF.

(a) Equity and net income

On November 4, 1999, the accumulated balance of $2,848 million in policyholders' surplus, (which included $249 million earned in 1999 prior to demutualization), less a demutualization cost of $51 million net of tax, was transferred to the shareholder's account and reclassified as shareholder's retained earnings. Subsequent to demutualization, net income has been separated between shareholder's net income and participating policyholders' net income. Post demutualization, 1999 shareholder's net income was $72 million and the participating policyholders' net loss was $1 million.

For comparative purposes, the 1999 shareholder's net income has been presented assuming the entire $249 million pre-demutualization net income was attributable to the shareholder's account.

(b) Participating account

The Act requires CLA to maintain two accounts within its general fund: one for its participating policies (the "participating account") and one for all of its other business (the "shareholder's account"). Through its participating account, the assets, liabilities, income and surplus relating to CLA's participating policies are recorded separately. This permits CLA to determine dividends on its participating policies based on the experience of the account relating to those policies only.

The participating account is composed of three sub-accounts: a "closed block sub-account", an "ancillary sub-account" and a "new business sub-account".

(i) The closed block sub-account is comprised of the liabilities for guaranteed benefits, expenses and taxes, including riders or supplementary benefits, policyholders' reasonable expectations for dividends and other non-guaranteed benefits determined using best estimate assumptions. The closed block sub-account was created for eligible participating policyholders as at the date of demutualization. These amounts were estimated to be $3,364 million at December 31, 2000 ($2,913 million in 1999). The closed block sub-account established at demutualization is for the protection of policyholders' reasonable expectations and is for the sole benefit of the policyholders of the closed block. Therefore, closed block sub-account assets are not available to the shareholder's account. If at any time the value of the assets allocated to the closed block sub-account were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of the closed block and the future reasonable earnings expectations of the policyholders, assets having a sufficient value to rectify the situation will be transferred first from the ancillary sub-account and then, if such deficiency was expected to be permanent, from the shareholder's account. Any such transfers from the shareholder's account would be recorded as a charge to the shareholder's net income.

(ii) The ancillary sub-account represents the margins for adverse deviation in respect of participating policies, including riders or supplementary benefits, referred to in (i) and liabilities for guaranteed benefits in respect of participating Canadian group life policies issued or assumed by CLA prior to demutualization. These amounts are determined by the Appointed Actuary and were estimated to be $350 million at December 31, 2000 ($326 million in 1999). Assets that, in the opinion of the Appointed Actuary, are in excess of those required to support the ancillary sub-account liabilities will be transferred periodically from the ancillary sub-account to the shareholder's account. Such amounts will be recorded as shareholder's net income. For the year ended December 31, 2000, $14 million ($3 million for the period November 5, 1999 to December 31, 1999) was transferred from the ancillary sub-account to the shareholder's account.

(iii) The new business sub-account is comprised of all liabilities, in respect of new participating policies issued on or after demutualization. On demutualization, $50 million of seed capital was transferred from the retained earnings of the shareholder's account to the new business sub-account, and subsequent transfers will be made, if necessary, to ensure that the assets allocated to the new business sub-account are sufficient to support the future participating policies, including riders or supplementary benefits, arising from this sub-account in the five year period subsequent to demutualization. A percentage of the earnings of

the new business sub-account may be transferred to the shareholder's account as permitted by regulation. Subject to approval by OSFI, the seed capital amount together with a reasonable rate of return may be transferred to the shareholder's account once the value of the assets allocated to the new business sub-account exceeds the value, in the opinion of the Appointed Actuary, required to provide for the new business sub-account liabilities. Transfers of seed capital to the shareholder's account would be returns of capital and would be recorded as adjustments to shareholder's retained earnings. A reasonable rate of return on seed capital will be recognized as income in the shareholder's account and an expense in the participating account.

In addition, prior to demutualization, CLA had established several closed blocks in respect of participating policyholder business previously acquired from other companies. These closed blocks will continue to operate as they did prior to demutualization. The total liabilities related to these closed blocks were $1,501 million at December 31, 2000 ($1,447 million in 1999).

14. EMPLOYEE FUTURE BENEFITS

CLA provides pension and other post-retirement life, health and dental insurance benefits, as well as post-employment benefits, for its eligible employees and agents.

Information about CLA's defined benefit pension and other arrangements, in aggregate, is as follows:

	Pension Benefits		Other Benefits	
(in millions of Canadian dollars)	**2000**	1999	**2000**	1999
ACCRUED BENEFIT OBLIGATION:				
Balance, beginning of year	**$ 761**	$ 651	**$ 118**	$ 121
Impact of changes in accounting policy *(note 2(g))*	**6**	–	**–**	–
Service cost	**34**	33	**5**	5
Employee contributions	**4**	3	**–**	–
Interest cost	**54**	54	**8**	7
Benefits paid	**(42)**	(38)	**(6)**	(3)
Actuarial gains	**5**	(20)	**(1)**	(30)
Acquisitions	**8**	100	**–**	19
Effect of changes in currency exchange rates	**(4)**	(22)	**1**	(1)
Balance, end of year	**$ 826**	$ 761	**$ 125**	$ 118
FUNDED PLAN ASSETS:				
Fair value, beginning of year	**$ 1,110**	$ 963	**$ –**	$ –
Impact of changes in accounting policy *(note 2(g))*	**(73)**	–	**–**	–
Actual return on plan assets	**253**	121	**–**	–
Employer contributions	**7**	6	**–**	–
Employee contributions	**4**	3	**–**	–
Benefits paid	**(42)**	(38)	**–**	–
Acquisitions	**5**	89	**–**	–
Effect of changes in currency exchange rates	**(7)**	(34)	**–**	–
Fair value, end of year	**$ 1,257**	$ 1,110	**$ –**	$ –
Net funded status at end of year	**$ 431**	$ 349	**$ (125)**	$ (118)
Unamortized net actuarial losses (gains)	**(166)**	(312)	**(1)**	(2)
Unamortized past service costs	**–**	1	**–**	–
Unamortized transitional (asset) obligation	**(290)**	(81)	**2**	–
Prepaid (accrued) benefit asset (liability)	**$ (25)**	$ (43)	**$ (124)**	$ (120)

Included in the above accrued benefit obligation at the end of 2000 is $158 million ($149 million for 1999) in respect of pension arrangements, of which $149 million ($138 million for 1999) is supported by assets held within CLA's general fund. The other benefit obligations are also supported by assets held within CLA's general fund.

CLA's net expense for defined benefit pension and post-retirement benefit plans is as follows:

(in millions of Canadian dollars)	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Service cost	**$ 34**	$ 30	**$ 5**	$ 5
Expected interest cost	**54**	54	**8**	7
Expected return on plan assets	**(80)**	(75)	**–**	–
Net actuarial gains	**–**	(11)	**–**	(35)
Amortization of transitional (asset) liability	**(21)**	(9)	**1**	–
Net benefit plan expense (recovery)	**$ (13)**	$ (11)	**$ 14**	$ (23)

CLA's net expense for defined contribution pensions is $2 million ($4 million for 1999).

The significant actuarial assumptions adopted in measuring CLA's end of year accrued benefit obligations are as follows (weighted average assumptions):

	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Discount rate	**6.94%**	7.44%	**7.07%**	7.08%
Expected long-term rate of return on plan assets	**7.96%**	7.48%	**–**	–
Rate of compensation increase	**5.29%**	5.75%	**5.45%**	5.54%

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 1-percentage-point change in the assumed health care cost trend rates would be as follows:

(in millions of Canadian dollars)	1-percentage-point increase	1-percentage-point decrease
Effect on total of service and interest costs for 2000	$ 2	$ (2)
Effect on year-end post-retirement benefit obligation	11	(12)

The assumed weighted average increase in health care costs for 2000 is 7.1%, gradually decreasing to 5.4% by 2007 and remaining at that level thereafter.

CLA acquired the Crown Life Insurance Company of Canada on January 1, 1999, increasing the accrued benefit obligation for pension benefits by $100 million in 1999 and an additional $8 million in 2000. Other post-retirement benefits increased by $19 million. As part of the acquisition, CLA received sufficient assets to support these benefit obligations.

15. COMMITMENTS

(a) CLA has contractual obligations in respect of rents payable on leased premises and equipment as follows:

YEAR ENDED DECEMBER 31

(in millions of Canadian dollars)

2001	$	46
2002		38
2003		30
2004		27
2005		25
Subsequently		117
Total	$	283

Rent expense incurred for the years ended December 31, 2000 and 1999 was $44 million and $43 million, respectively.

(b) CLA lends its own securities to borrowers on a fully collateralized basis. Securities lent at December 31, 2000 amounted to $541 million ($722 million for 1999).

16. SEGMENTED INFORMATION

(a) Basis of segmentation

CLA manages its business and distributes its general fund and segregated funds insurance and annuity products through operating divisions in Canada, the United Kingdom, the United States, the Republic of Ireland, and an International and Reinsurance division. Each operating division includes branch operations and/or subsidiary companies, is organized to meet the needs of local markets and is responsible for its own product functions.

The operating divisions are charged overhead costs for head office corporate functions using cost allocations based on services provided. In addition, the operating divisions share in the net earnings from the surplus assets maintained by CLA. The total net earnings on the surplus assets are allocated to the divisions based on the level of required capital in each division. The level of required capital is based on the MCCSR for branch operations and on the actual surplus held for subsidiary companies.

(b) Reportable information

CLA's primary sources of revenue are:

- premium income derived from life and health insurance products that provide protection against mortality and morbidity risks, and annuity products which provide asset accumulation or wealth management benefits;
- net investment income; and
- fee and other income derived primarily from investment management services.

(in millions of Canadian dollars)	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
2000						
GENERAL FUND						
Revenues						
Premium income						
Participating insurance and annuities	$ 315	$ 101	$ 265	$ 63	$ 42	$ 786
Non-participating:						
Annuities	312	585	580	70	1	1,548
Individual life and health insurance	232	63	163	203	13	674
Group life and health insurance	766	206	343	8	68	1,391
Reinsurance	–	–	–	–	153	153
General insurance	124	–	–	–	–	124
	1,749	955	1,351	344	277	4,676
Net investment income	994	475	698	77	61	2,305
Fee and other income	177	221	21	62	3	484
	2,920	1,651	2,070	483	341	7,465
Expenditures						
Payments to policyholders and beneficiaries	2,231	704	1,679	112	198	4,924
Increase (decrease) in actuarial liabilities	(149)	524	52	215	30	672
Commissions	93	73	80	42	53	341
General expenses	410	172	134	68	27	811
Premium taxes	43	–	13	3	4	63
Interest expense	23	–	12	–	4	39
	2,651	1,473	1,970	440	316	6,850
Net income before income taxes and goodwill expense	269	178	100	43	25	615
Income taxes	137	31	25	11	6	210
Net income before goodwill expense	132	147	75	32	19	405
Goodwill expense	1	20	2	–	1	24
Net income	131	127	73	32	18	381
Participating policyholders' net income (loss)	–	–	(8)	3	1	(4)
Shareholder's net income	$ 131	$ 127	$ 81	$ 29	$ 17	$ 385
Total assets:						
Participating*	$ 2,896	$ 1,499	$ 1,234	$ 388	$ 340	$ 6,357
Non-participating	11,035	5,356	8,638	912	401	26,342
	$ 13,931	$ 6,855	$ 9,872	$ 1,300	$ 741	$ 32,699
SEGREGATED FUNDS						
Premiums	$ 1,909	$ 1,258	$ 115	$ 407	$ 3	$ 3,692
Total assets	$ 8,326	$ 11,219	$ 854	$ 1,980	$ 4	$ 22,383

**Of the total participating actuarial liabilities at December 31, 2000, approximately 93% represents the closed block sub-account.*

(in millions of Canadian dollars)	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
1999						
GENERAL FUND						
Revenues						
Premium income						
Participating insurance and annuities	$ 318	$ 110	$ 283	$ 74	$ 46	$ 831
Non-participating:						
Annuities	571	682	466	50	–	1,769
Individual life and health insurance	190	55	130	232	18	625
Group life and health insurance	715	178	321	9	54	1,277
Reinsurance	–	–	–	–	202	202
General insurance	117	–	–	–	–	117
	1,911	1,025	1,200	365	320	4,821
Net investment income	1,011	509	659	79	63	2,321
Fee and other income	127	193	18	51	4	393
	3,049	1,727	1,877	495	387	7,535
Expenditures						
Payments to policyholders and beneficiaries	2,078	640	1,613	173	246	4,750
Increase (decrease) in actuarial liabilities	289	675	(47)	187	29	1,133
Commissions	93	75	81	34	61	344
General expenses	354	157	124	66	22	723
Premium taxes	37	–	13	3	4	57
Interest expense	38	3	–	–	1	42
	2,889	1,550	1,784	463	363	7,049
Net income before income taxes and goodwill expense	160	177	93	32	24	486
Income taxes	70	16	31	4	7	128
Net income before goodwill expense	90	161	62	28	17	358
Goodwill expense	2	33	2	–	1	38
Net income	88	128	60	28	16	320
Participating policyholders' net loss	–	–	–	(1)	–	(1)
Shareholder's net income	$ 88	$ 128	$ 60	$ 29	$ 16	$ 321
Total assets:						
Participating*	$ 2,707	$ 1,357	$ 949	$ 321	$ 432	$ 5,766
Non-participating	10,456	5,071	8,329	703	391	24,950
	$ 13,163	$ 6,428	$ 9,278	$ 1,024	$ 823	$ 30,716
SEGREGATED FUNDS						
Premiums	$ 1,466	$ 914	$ 144	$ 213	$ –	$ 2,737
Total assets	$ 7,648	$ 11,453	$ 1,026	$ 1,747	$ 1	$ 21,875

**Of the total participating actuarial liabilities at December 31, 1999, approximately 91% represents the closed block sub-account.*

17. DERIVATIVE FINANCIAL INSTRUMENTS

CLA is party to various derivative financial instruments, not all of which are reflected in the Consolidated Balance Sheet. Derivative financial instruments are financial contracts that derive their value from that of the underlying financial assets, interest rates, foreign currency rates or stock/bond/commodity indices.

Derivative financial instruments are either negotiated over-the-counter (OTC) as a direct arrangement between two counterparties or traded on a regulated exchange. Derivative financial instruments include:

- options, which are contracts giving the holder, for a fee, the right, but not the obligation, to buy or sell within a limited time, the underlying financial asset at a contracted price;
- futures and forwards, which impose obligations on the contracting parties to buy or sell at a future date a specified underlying financial asset at a specified price, and which may be settled in cash or through delivery; and
- swaps, which are contracts obligating two parties to exchange a series of cash flows at specified intervals in the future.

The following table summarizes the notional amount, the fair value and the credit risk exposure of CLA's derivative financial instruments:

	Interest rate contracts*		Foreign exchange contracts		Other contracts***	Total contracts
(in millions of Canadian dollars)	Futures	Swaps	Forwards**	Swaps		
2000						
Notional amount by term to maturity						
Exchange traded:						
Less than 1 year	$ 594	$ –	$ –	$ –	$ 54	$ 648
Over the counter:						
Less than 1 year	–	70	650	13	102	835
1 to 5 years	–	351	–	97	–	448
Over 5 years	–	1,028	–	907	–	1,935
Total	$ 594	$ 1,449	$ 650	$ 1,017	$ 156	$ 3,866
Fair value	$ –	$ 33	$ (3)	$ (49)	$ (13)	$ (32)
Credit risk exposure						
Maximum credit risk	$ –	$ 63	$ 5	$ 9	$ –	$ 77
Potential future credit exposure	–	17	6	73	6	102
Credit equivalent amount	$ –	$ 80	$ 11	$ 82	$ 6	$ 179
Risk weighted amount	$ –	$ 24	$ 2	$ 32	$ 1	$ 59
1999						
Notional amount by term to maturity						
Exchange traded:						
Less than 1 year	$ 666	$ –	$ –	$ –	$ 14	$ 680
Over the counter:						
Less than 1 year	–	55	948	28	86	1,117
1 to 5 years	–	255	–	121	–	376
Over 5 years	–	1,059	–	1,012	–	2,071
Total	$ 666	$ 1,369	$ 948	$ 1,161	$ 100	$ 4,244
Fair value	$ –	$ 22	$ 19	$ 10	$ (6)	$ 45
Credit risk exposure						
Maximum credit risk	$ –	$ 64	$ 20	$ 36	$ 2	$ 122
Potential future credit exposure	–	17	10	82	5	114
Credit equivalent amount	$ –	$ 81	$ 30	$ 118	$ 7	$ 236
Risk weighted amount	$ –	$ 25	$ 6	$ 46	$ 2	$ 79

* *CLA has purchased options to enter into interest rate swaps in order to hedge the exposure of adverse movements in interest rates. The notional amount for 2000 was $823 million ($896 million for 1999).*

** *CLA makes use of forward foreign exchange agreements to hedge the exposure of its investment in foreign operations against adverse movements in foreign exchange rates. The notional amount for 2000 was $569 million ($891 million in 1999).*

*** *CLA makes use of options and equity return swaps to hedge a portion of its stock portfolio against adverse movements in the stock markets. The notional amounts for the options and the equity return swaps for 2000 were nil and $102 million, respectively ($73 million and $12 million, respectively, in 1999).*

Definition of terms used in this table:

(a) Notional amount reflects the volume of CLA's investment in derivative financial instruments. It represents the amount to which a rate or price is applied to calculate the exchange of cash flows. The amount of risk inherent in these contracts is significantly less than the notional amount.

(b) Fair value of a derivative financial instrument is equivalent to the replacement cost. Fair value is an estimate of the value at which derivative instruments could be exchanged between willing parties, other than in a forced or liquidation sale. When available, quoted market prices are used for derivative financial instruments. In all other cases, fair values are based on present value estimates of the future cash flows. The fair values stated above represent the net of contracts in a receivable position and those in a payable position.

(c) Credit risk exposure reflects the potential loss due to defaults by the counterparties with which CLA is dealing. Credit risk is comprised of the following components, which have been determined in accordance with OSFI guidelines:

(i) Maximum credit risk represents the cost of replacing, at current market rates, all contracts that have a positive fair value, should the counterparty default. Since no loss related to credit risk is incurred for derivative contracts with a negative fair value, only positive fair values are considered to be at risk.

(ii) Potential future credit exposure quantifies the potential for future losses, which may result from future movement in market rates.

(iii) Credit equivalent amount is the sum of maximum credit risk and the potential future credit exposure reflecting the loss that would be incurred by CLA should a counterparty default on a derivative contract either now, or at some time in the future.

(iv) Risk weighted amount estimates actual credit risk for a derivative financial instrument by applying a weighting factor based on the credit worthiness of the counterparty against the credit equivalent amount.

(d) Other contracts include equity return swaps, collars and stock options.

18. CONTINGENT LIABILITIES

(a) Legal proceedings

CLA has, in the normal course of business, a number of outstanding lawsuits. The aggregate liability, which may result from these lawsuits, is not considered to be a material amount.

In addition, actions have been commenced against CLA in Canada relating to the sale of whole life insurance policies on the basis that dividends would be used to pay future premiums. Three of these actions have been filed in Ontario, Quebec and British Columbia by plaintiffs seeking to have the actions certified as class actions. To date, none of these actions have been certified as class action lawsuits and they are still at a preliminary stage. CLA does not expect them to have a material impact on these Consolidated Financial Statements.

(b) Prior pension sales in the United Kingdom

In the United Kingdom, life insurance companies are required by the U.K. regulators to compensate policyholders who previously acquired personal pension products offered by such companies in situations in which they could otherwise have remained in or joined employer-sponsored pension plans and who suffered a financial loss as a result.

CLA established a provision of $239 million as at December 31, 1999. During 2000, no further provisions were made. This was reduced by net reductions relating primarily to payments to policyholders during the year and other adjustments of $35 million. The provision as at December 31, 2000 was $204 million. These amounts are net of estimated recoveries from vendors of the businesses acquired by CLA in the United Kingdom. This provision is based on management's current estimate and the amount of the actual compensation to policyholders may vary from this amount.

19. COMPARATIVE FIGURES

The 1999 comparative figures have been reclassified to conform to presentation changes adopted in 2000.

For the years ended December 31 *(in millions of Canadian dollars)*	2000	1999	1998[3]	1997	1996	1995
FINANCIAL POSITION						
Assets under administration						
General fund	$ 32,712	$ 30,728	$ 26,284	$ 23,503	$ 22,341	$ 20,654
Segregated funds	22,383	21,875	18,672	16,136	9,388	7,718
	55,095	52,603	44,956	39,639	31,729	28,372
Other assets under administration[1]	7,986	2,526	2,437	3,353	3,206	3,620
	$ 63,081	$ 55,129	$ 47,393	$ 42,992	$ 34,935	$ 31,992
Equity[2]						
Policyholders' equity	$ –	$ –	$ 2,694	$ 2,631	$ 2,365	$ 2,146
Participating policyholders' equity	44	47	–	–	–	–
Shareholders' equity	3,107	2,830	–	–	–	–
	$ 3,151	$ 2,877	$ 2,694	$ 2,631	$ 2,365	$ 2,146
PERFORMANCE RESULTS						
Total premium revenue						
Participating insurance and annuities	$ 786	$ 831	$ 778	$ 639	$ 563	$ 509
Non-participating:						
Annuities	1,548	1,769	1,731	1,394	1,446	1,400
Individual life and health insurance	674	625	424	340	230	199
Group life and health insurance	1,391	1,277	926	826	769	626
Reinsurance	153	202	–	–	–	–
General insurance	124	117	121	116	114	104
General fund premium income	4,676	4,821	3,980	3,315	3,122	2,838
Segregated funds	3,692	2,737	2,118	1,944	1,354	988
	$ 8,368	$ 7,558	$ 6,098	$ 5,259	$ 4,476	$ 3,826
Net investment income	$ 2,306	$ 2,321	$ 1,964	$ 1,842	$ 1,734	$ 1,653
Fee and other income	484	393	331	231	191	160
Commissions	341	344	244	203	178	146
General expenses	811	723	690	489	453	435
Net income before goodwill expense	405	358	150	286	230	181
Net income	381	320	88	266	219	170
Shareholders' net income[4]	385	321	N/A	N/A	N/A	N/A
BUSINESS STATISTICS						
Life insurance in force						
Individual	$ 140,014	$ 125,193	$ 83,339	$ 75,210	$ 64,479	$ 58,902
Group	273,580	245,115	217,788	184,797	166,128	131,538
	$ 413,594	$ 370,308	$ 301,127	$ 260,007	$ 230,607	$ 190,440

Notes:

[1] *In 2000, the defined contribution pension plans, group RSP plans, profit sharing plans and stock plans acquired from TD Bank Financial Group effective December 31, 2000 were added. Included here as well are 35% of the third party assets managed by Laketon Investment Management Ltd., representing the Company's equity interest in Laketon and its predecessors, unit trusts managed in the United Kingdom and other assets administered under various types of arrangements.*

[2] *The 1998 opening policyholders' equity has been restated to reflect the change in accounting policy for future income taxes. The 1997 and prior years' figures have not been restated for this change.*

[3] *Net income for 1998 was $88 million which includes provisions of $182 million after tax for two industry-wide issues in the United Kingdom. Excluding these provisions, net income would have been $270 million for the year ended December 31, 1998.*

[4] *The Company demutualized on November 4,1999 and for 1999, net income was originally presented as $249 million prior to and $72 million post demutualization. For comparative purposes, the 1999 shareholders' net income has been presented on a pro forma basis assuming the total net income in 1999 was attributable to shareholders. The 1998 and prior years' figures have not been presented on this basis.*

Dividend Policy for Individual Participating Policyholders

This is a summary of the dividend policy established by the Board of Directors of The Canada Life Assurance Company (CLA).

The underlying philosophy of the policy is to achieve a dividend distribution to participating policyholders that is equitable and timely, and that gives full recognition to the need to ensure the ongoing solidity of CLA. The amount of surplus to be distributed will reflect the level and trend of the participating account earnings.

Each year, the Chief Actuary recommends the amount and form of all policyholder dividends to the Board of Directors, who approve a basis for dividends to be paid on participating policies. These dividends will be paid annually on policy anniversaries, except policies issued prior to January, 1988, in the United Kingdom and the Republic of Ireland. These policies will receive a dividend every fifth anniversary. Some policies in the United Kingdom and the Republic of Ireland may receive an additional dividend on maturity or death.

Dividends shall be determined on a fair and equitable basis that recognizes the contribution of the policy to the earnings of its dividend class with respect to such factors as mortality and policy termination experience, expenses, taxes and investment income. A dividend class is a grouping of participating policies that provides the same basic benefit for the same premium scale.

Illustration of dividends will be done on a basis not exceeding the currently approved dividend scale.

A copy of the full Dividend Policy may be obtained by writing to the Secretary at the Head Office of CLA in Toronto.

Voting Rights

CLA's voting policyholders and its sole shareholder, Canada Life Financial Corporation (CLF), are entitled to attend meetings of CLA and to vote in person or by proxy. Voting policyholders are entitled to vote separately from CLF to elect a portion of the Board of Directors of CLA.

Except for restrictions detailed in the CLF Proxy Circular, CLF shareholders are entitled to attend meetings of CLF and to one vote for each common share registered in his or her name.

Forms for naming a proxyholder or alternate proxyholders may be obtained by writing to the Secretary at the Head Office of the Companies in Toronto. To be valid, signed forms of proxy must be deposited with the Companies or their agent, Computershare Trust Company of Canada, at least two days before the date of the meeting, or an adjournment thereof, at which the proxy is to be used. A policyholder or shareholder may revoke their proxy at any time.

The 2000 CLF Annual Meeting of Shareholders and the 2000 CLA Annual Meeting of Policyholders will be held concurrently at the Head Office of the Companies on Thursday, April 12, 2001, at 10:30 a.m. (Toronto time).

Corporate Governance

Canada Life Financial Corporation (CLF) was incorporated in 1999 for the purpose of becoming an insurance holding company of The Canada Life Assurance Company (CLA). CLF has no assets or liabilities (other than its beneficial holding of all the outstanding shares of CLA) of more than nominal value having regard to the total consolidated assets of CLF. The Boards and Committees of Directors of the two Companies are identical. Thus the processes and structures to direct and manage the business and affairs of the Companies, including appropriate corporate governance practices, are primarily instituted through CLA.

To achieve high standards and best practices in corporate governance matters, the Corporate Governance Committees of the Companies, which have the same individuals as members, continually review corporate governance developments. In respect of these reviews, the Committees consider recommendations from management, internal and external auditors, and our key regulators including the Office of the Superintendent of Financial Institutions, Canada, the Canadian provincial securities commissions, the Toronto Stock Exchange, the New York Stock Exchange and the U.S. Securities and Exchange Commission.

COMPOSITION OF THE BOARDS

The Boards are comprised of individuals residing in Canada, the United Kingdom and the United States. The Directors are experienced, proven leaders from a diverse group of professions and industries. At December 31, 2000, there were 17 Directors on each of the Boards. The Corporate Governance Committees believe this to be an appropriate number at present to effectively oversee the business and affairs of the Companies, due to the breadth and depth of experience and skill represented by the Board members. Only two Directors –the Chairman, President and Chief Executive Officer, and the former Chairman – are related to the Companies. David A. Nield is the only inside Director.

Evaluation of potential candidates for election to the Boards is done by the Corporate Governance Committees based on criteria they establish. This enables the Committees to recommend to the Boards, candidates with the skill and experience that best complement the strengths of the current Boards.

CHAIRMAN OF THE BOARDS

The dual role of David A. Nield as Chairman of the Boards and Chief Executive Officer does not, in the opinion of the Corporate Governance Committees, impair the Boards' ability to function independently of management. The Boards believe that his extensive knowledge of the Companies' business is beneficial to the rest of the Directors. To further reinforce independence, the Boards meet regularly in camera without the Chairman present under the leadership of the Chairman of the Corporate Governance Committees. In addition, the Chairman does not have a casting vote.

COMPENSATION OF THE BOARDS

To ensure that compensation is adequate, realistically reflects the responsibilities and risks involved in being an effective Director and is competitive in today's marketplace, Directors' compensation is annually benchmarked against the Companies' Canadian peers. The Corporate Governance Committees make recommendations to the Boards on the amount and form of compensation. The Directors receive meeting attendance fees based on one meeting even though both CLF and CLA business is discussed at the meeting. In order to align the interests of Directors with shareholders, CLF share options are granted to Directors subject to a limit on the total number of options that can be granted to the Directors. Each Director is encouraged to acquire for his or her own account, six times the value of his or her annual retainer in CLF common shares, over a period of six years.

ASSESSMENT OF THE BOARDS

The Corporate Governance Committees annually make an assessment of the Boards' effectiveness in fulfilling their responsibilities.

ADVISORS TO THE BOARDS

The Boards have established a policy that enables the Boards, Board Committees and individual Directors to engage an outside advisor at the expense of the Companies in appropriate circumstances. The engagement of an outside advisor is subject to the approval of the Chairman of the Corporate Governance Committees.

ROLE OF THE BOARDS

The Boards of CLF and CLA are responsible for the stewardship of their respective Companies, and make all major policy decisions for them. The CLF Board's obligations are principally derived from the mandate of CLA's Board. The main responsibilities include:

- overseeing management of the business and affairs of CLA
- reviewing and approving strategic and business plans, overseeing their implementation and monitoring corporate performance against them
- reviewing and approving shareholder and policyholder dividend policies
- reviewing and approving quarterly and annual financial statements
- reviewing and considering the Companies' principal business risks and providing oversight of the Companies' risk management policies
- overseeing the integrity and effectiveness of the internal control and management information systems and shareholder communications policies
- reviewing and approving material transactions such as significant investment transactions and acquisitions or divestitures of businesses
- appointing and evaluating the Chief Executive Officer and senior management
- overseeing and monitoring succession planning

ROLES OF BOARD COMMITTEES

The Committees perform the duties identified in formal mandates.

The Corporate Governance Committees address corporate governance matters pertaining to the Boards, Board Committees, shareholders and policyholders. These Committees' responsibilities include:

- recommending suitable candidates for election to the Boards of Directors
- reviewing and recommending improvements to the Companies' approach to corporate governance matters, including terms of reference and membership of Board Committees, mechanics of Board and Committee meetings and compensation of the Boards
- assessing the effectiveness of the Boards

All but one member, the former Chairman of the Board of CLA, are unrelated to the Companies.

The Audit and Risk Management Committees assist the Boards of Directors in fulfilling their oversight responsibilities with respect to financial, regulatory and public reporting, financial condition, risk management policies and procedures, including internal controls and the audit activities relating to CLF and CLA. These Committees' responsibilities include:

- reviewing the quarterly and annual financial statements and returns of the Companies
- meeting with the external auditor to discuss the financial statements and any regulated securities filings
- meeting with the actuary to discuss parts of the financial statements and the annual returns
- meeting with the internal auditor and management of the Companies to discuss the effectiveness of the risk management policies and procedures, including internal controls, established for the Companies and to evaluate compliance with those policies and procedures
- meeting with the Companies' regulators

All members are unrelated to the Companies.

The Human Resources Committees ensure that effective compensation policies are in place to retain and properly deploy skilled, effective officers and employees. These Committees' responsibilities include:

- assessing performance and reviewing compensation of the Chief Executive Officer
- reviewing all senior management appointments and compensation
- reviewing management succession planning, organization and structures

All but one member, the former Chairman of the Board of CLA, are unrelated to the Companies.

The Conduct Review Committees ensure that effective procedures are in place and are followed for dealing with related party transactions and other important aspects of corporate conduct. These Committees' responsibilities include:

- reviewing and monitoring the procedures established by management for the review of transactions with related parties of the Companies, to ensure that material transactions are identified
- reviewing and recommending to the Boards procedures to identify and resolve conflicts of interest, and procedures to restrict the use of confidential information
- monitoring the conflict of interest and confidential information procedures established by the Boards

All members are unrelated to the Companies.

The Pension Committees set and review financial policies of the staff and agents pension plans and savings-type plans for funding and investments and ensure monitoring of these policies for compliance. These Committees' responsibilities include:

- overseeing of pension policy, governance and regulatory requirements
- advising the Boards on matters related to the plans' funding, investments, administration and government compliance
- approving pension trustee changes

All members are unrelated to the Companies.

COMMUNICATION WITH SHAREHOLDERS AND POLICYHOLDERS

CLF and CLA are committed to equal and fair treatment of all shareholders and policyholders. Each of the Companies communicates regularly with shareholders and policyholders through their website, annual reports and media releases. In addition to public disclosure documents that are filed with regulatory authorities, CLF also makes quarterly reports available to shareholders.

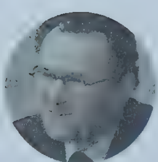
CLF responds promptly to shareholder inquiries through its Investor Relations department and through its transfer agent, Computershare Trust Company of Canada. CLA responds promptly to policyholder inquiries through its customer care/call centres in each jurisdiction. Questions from the public are addressed by the Corporate Communications department. The public can also communicate with the Companies through their website.

The Companies' compliance with the Guidelines for Improved Corporate Governance in Canada issued by the Toronto Stock Exchange ("TSE Guidelines") is highlighted below:

TSE Guidelines	[illegible]
Board responsible for overall stewardship of company	Yes
Board constituted with majority of unrelated directors	Yes
Corporate Governance Committee constituted with non-management directors	Yes
Process for assessing Board effectiveness	Yes
Orientation for new directors	Yes
Board size suitable for effective decision-making	Yes
Satisfactory compensation of Directors	Yes
Independence of Board committees	Yes
Relevant corporate governance issues addressed by Corporate Governance Committee	Yes
Position description for the CEO	Yes
Board functions independently of management	Yes
Audit Committee composed only of outside directors and has direct communication with the Company's auditors	Yes
System for Board to engage outside advisors	Yes

Board of Directors

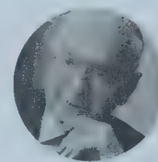
David A. Nield
Chairman of the Board,
President and Chief Executive Officer
Canada Life Financial Corporation and The Canada Life Assurance Company
Toronto, Ontario, Canada



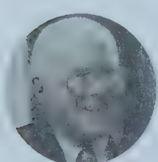
James C. Alfano
President & Chief Executive Officer,
Stelco Inc.
Hamilton, Ontario, Canada

George S. Bain
President and Vice-Chancellor
The Queen's University of Belfast
Belfast, Northern Ireland

Angus A. Bruneau
Chairman
Fortis Inc.
St. John's, Newfoundland, Canada



Edward H. Crawford
Corporate Director, Former Chairman
The Canada Life
Assurance Company
Toronto, Ontario, Canada



Graham R. Dawson
President
G. R. Dawson Holdings Limited
Vancouver, British Columbia,
Canada

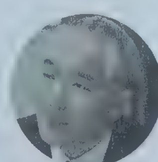
John R. Hall
Corporate Director, Former
Chairman and Chief Executive Officer
Ashland Oil, Inc.
Ashland, Kentucky, U.S.A.

Michael L. Hepher
Corporate Director,
Former Chairman
Charterhouse, plc
London, England

Monique Jérôme-Forget
Member of the Quebec
National Assembly
Riding of Marguerite-Bourgeoys
Montreal, Quebec, Canada

David W. Kerr
President and Chief Executive
Officer
Noranda Inc.
Toronto, Ontario, Canada

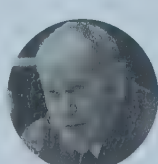
David W. Lay
Corporate Director
Toronto, Ontario, Canada



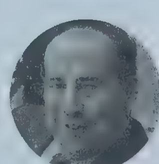
Brandt C. Louie
President
H.Y. Louie Co. Limited
Burnaby, British Columbia, Canada

Harold H. MacKay
Chairman
MacPherson Leslie & Tyerman
Regina, Saskatchewan, Canada

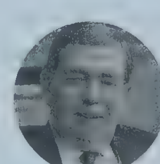
Diane E. McGarry
Chief of Staff
Office of the President and COO
Xerox Corporation
Stamford, Connecticut, U.S.A.



Cedric E. Ritchie
Corporate Director,
Former Chairman of the Board
and Chief Executive Officer
The Bank of Nova Scotia
Toronto, Ontario, Canada



T. Iain Ronald
Corporate Director,
Former Vice-Chairman
Canadian Imperial Bank of
Commerce
Toronto, Ontario, Canada



Arthur R. A. Scace
Partner, McCarthy Tétrault
Former Chairman
McCarthy Tétrault
Toronto, Ontario, Canada

Honorary Directors

THE CANADA LIFE ASSURANCE COMPANY

David W. Barr	**John L. McCarthy**	**William P. Wilder**	**Laura L. Legge, Q.C.**
Donald G. Campbell, F.C.A.	**Beryl A. Plumptre**	**Sir Donald Barron**	**Ellmore C. Patterson**
Nathanael V. Davis	**The Right Honorable Robert L. Stanfield, P.C., Q.C.**	**John H. Clarry, M.B.E., Q.C.**	**Judson W. Sinclair**
Russell E. Harrison		**Gerard Filion, C.C.**	**Richard L. Terrell**

Canada Life Financial Corporation and The Canada Life Assurance Company

SUMMARY OF ATTENDANCE

For the period January 1 - December 31, 2000

The Directors of Canada Life Financial Corporation and The Canada Life Assurance Company hold Board and Committee meetings at the same time and in the same place.

James C. Alfano	9		0			3
George S. Bain	10			4	5 (of 6)*	
Angus A. Bruneau	10	6				
Edward H. Crawford	9			2	6	
Graham R. Dawson	11		1	3		
John R. Hall	8				6	
Michael L. Hepher	11		1			
Monique Jérôme-Forget	11	6	1			
David W. Kerr	7	5				
David W. Lay	11	6				3
Brandt C. Louie (Elected Sept. 6, 2000)	4 (of 4)					
Harold H. MacKay	11			2 (of 3)*		2
Diane E. McGarry	9	6		3		
David A. Nield	11					
Cedric E. Ritchie	11				8	
T. Iain Ronald	11	6			8	
Arthur R.A. Scace	10			4	6	
Total Number of Meetings Held	11	6	1	4	8	3

*Joined the Committees on April 13, 2000

BOARD COMMITTEES *(As of December 31, 2000)*

Ronald *(Chairman)*	Jérôme-Forget *(Chairman)*	Scace *(Chairman)*	Ritchie *(Chairman)*	Lay *(Chairman)*
Bruneau Jérôme-Forget Kerr Lay McGarry	Alfano Dawson Hepher	Bain Crawford Dawson MacKay McGarry	Bain Crawford Hall Ronald Scace	Alfano MacKay

Glossary of Terms

Annuity
A contract that provides for income payments to be made by the Company to a named person at regular (typically monthly) intervals, either for a specific period (an annuity certain) or for the lifetime of the annuitant (a life annuity).

Appointed Actuary
The Company's actuary appointed by the Company under The Insurance Companies Act (Canada).

ASO contracts
Administrative Services Only (ASO) contracts are group benefit plans administered by the Company on behalf of the customer. The Company earns fees for its administrative services, but the customer retains all insurable risks and is responsible for paying all claims.

Cash surrender value
The amount available in cash when the policyholder voluntarily terminates the policy before it becomes payable either on death or maturity.

CIA
Canadian Institute of Actuaries.

Compulsory purchase payout retirement annuity
An annuity, that, by law, must be purchased with the accumulated funds of a vested defined contribution pension plan.

Creditor life and disability insurance
Insurance protection for borrowers in the event of disability or death. This product is administered through the Company's group life and health operations.

Critical illness
Insurance purchased to mitigate the financial strain of surviving a critical illness, which can include a lump sum benefit after diagnosis of one of the covered critical illnesses.

Deferred annuity
An annuity contract under which premiums are accumulated and the annuity income benefits begin more than one annuity period after the date on which the annuity is purchased.

Defined contribution plan
A pension plan that does not guarantee specific retirement benefits. The retirement benefit amount paid depends on the contribution amounts and earnings performance.

Demutualization
The conversion of an insurance company from mutual ownership by participating policyholders to public ownership by common shareholders.

Direct sales consultant
A person authorized to sell insurance products.

Endowment
An insurance policy that provides a benefit if the insured dies during the endowment period and a benefit if the insured survives to the end of the endowment period.

Financial reinsurance
Reinsurance primarily designed to serve some financial or business purpose of one or both of the companies that are party to the agreement. For example, a financial reinsurance transaction can improve the profit or surplus of the ceding company or aid its tax planning.

Fixed annuity
An annuity contract under which the amount is accumulated by investing over a chosen term, entitling the customer to receive guaranteed amounts in the future.

General fund
The assets and liabilities of the Company, excluding the segregated funds.

General insurance
Primarily automobile and property insurance.

GIC
A guaranteed investment contract.

Group health insurance
An insurance policy that provides coverage to a group of people according to the terms of one master contract for various health related expenses, such as medical and dental expenses, and/or for income replacement in the event of a disability. This type of policy is most commonly obtained by employers to provide coverage for their employees.

Group life insurance
An insurance policy under which the lives of a group of people are insured according to the terms of one master contract. This type of policy is most commonly obtained by employers to provide term life insurance for their employees.

Guaranteed annuity (fixed annuity)
An annuity contract under which the amount is accumulated by investing over a chosen term, entitling the customer to receive guaranteed amounts in the future.

IFA
Independent financial advisor.

Immediate or payout annuity
A contract to receive a set stream of income that is not subject to market or investment risk. There are various payout options, including life only, life with a minimum guaranteed payout period, joint and survivorship that is lifetime payout for two annuitants and period certain only.

Individual life insurance
An insurance policy that is issued to insure the life of a named person or persons, rather than individuals of a group.

Investment grade bonds
Bonds that are classified with a credit rating of BBB and above as defined by Standard & Poor's.

Glossary of Terms

MCCSR

Minimum Continuing Capital and Surplus Requirements. A risk-based formula, prescribed by OSFI to assess the adequacy of an insurance company's capital by comparison to the regulatory minimum.

Mutual company

An insurance company owned by its policyholders, in which there are no common shareholders and the Board of Directors is elected by the participating policyholders.

OSFI

Office of the Superintendent of Financial Institutions, Canada. The federal agency responsible for regulating and supervising banks, insurance, trust and loan companies, federally-regulated pension plans, and co-operative credit associations that are licensed or registered federally in Canada.

Participating mortgages

A mortgage in which a portion of the income earned is based on underlying cash flows of the property.

Participating policy

A policy that allows its holder to share in a company's surplus distributions in the form of dividends and to vote at meetings of policyholders.

Policy dividends

Dividends declared at the discretion of the Board of Directors and paid to participating policyholders.

Premium

The payment, or one of a series of payments, required by an insurer to keep an insurance policy in force.

Reinsurance

A type of insurance that one company, the ceding company, purchases from another company, the reinsurer, in order to transfer the risks on insurance policies that the ceding company issued.

Retrocession

A transaction in which a reinsurer cedes a portion of its risks to another reinsurer, or a parcel or unit of insurance that one reinsurer has assumed and that it cedes to another reinsurer.

Retrocessionaire

The reinsurance company that accepts the excess risk of another reinsurer.

Segregated fund

A fund established by a life insurance company and consisting of assets that are separate and distinct from the other assets of the company. Subject to any minimum performance guarantee given by a company, the company's liability under these policies may vary in amount depending on the market value of the fund's assets. By law, the claims of the policyholder or policyholders in respect of whom the fund is maintained have priority over any other claim against the fund's assets. To the extent that these fund's assets are insufficient to cover any guarantee of performance given by a company, the residual claim would rank the same as the claims of general creditors. The segregated fund business for the Company includes Canadian segregated annuity funds, unit-linked life insurance and annuities in the United Kingdom and Ireland, and variable annuity separate accounts and group pooled accounts in the United States.

Separate accounts

United States investment vehicle that is essentially the same as segregated funds in Canada.

Single premium product

A contract purchased with a single, lump-sum payment.

[illegible]

Fees charged by a state-mandated association formed by life and health insurance companies in the United States to cover the financial obligations of member companies that fail.

[illegible]

An insurance policy under which the benefit is payable only if the insured dies during a specified period.

[illegible]

The process by which an insurance company assesses the risk inherent in an insurance application before issuing the policy.

Unit-linked product

An insurance contract where a return is earned based on the investment performance of the underlying assets, which may be unit trust units or other invested assets.

[illegible]

The term used in the United Kingdom for an investment fund, similar to an open-end mutual fund.

[illegible]

An annuity contract under which premiums paid are invested in the Company's segregated funds and the value of which fluctuates with the investment experience of the segregated fund assets. At the time of benefit payment to the annuitant, the annuitant can generally elect from a number of payment options, which provide either fixed or variable benefit payments.

Whole life insura[illegible]

Life insurance that remains in force during the insured's entire life, provided premiums are paid as specified. This type of insurance builds a cash surrender value.

Corporate Information

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M5G 1R8
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Assistant Vice-President
Corporate Communications
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E-mail: ardyth_percy-robb@canadalife.com

Roy Linden
Secretary
Phone: 416-597-1440 (extension 5134)
E-mail: roy_linden@canadalife.com

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M5G 1R8
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England EN6 5BA
Phone: 44-1707-651122
Internet: www.canadalife.co.uk

United States Division
6201 Powers Ferry Road
Suite 100
Atlanta, Georgia, United States 30339
Phone: 770-953-1959
Internet: www.canadalifeus.com

Republic of Ireland Division
Canada Life House
Temple Road
Blackrock County, Dublin
Republic of Ireland
Phone: 353-1-210-2000
Internet: www.canadalife.ie

International & Reinsurance Division
330 University Avenue
10th Floor
Toronto, Ontario, Canada
M5G 1R8
Phone: 416–597-1456
Internet: www.canadalife.com

Additional copies of the annual report can be obtained by calling (416) 597-1440 extension 5041. The report is also available online at www.canadalife.com

Ernst & Young LLP

Investor Information

Investor Relations:

Any inquiries other than change of address, shareholder dividends, lost certificates or change in registration of shares should be directed to Investor Relations.

Brian Lynch
Investor Relations Vice-President
Phone: 416-597-1440 (extension 6693) or 416-204-2381
Fax: 416-597-9876
E-mail: investor_relations@canadalife.com
Website: www.canadalife.com

The Investor Relations page of our corporate site contains the Company's main financial information.

Change of address or change in registration:

Please write, call or email the Company's transfer agent:

Canada, the United Kingdom and the Republic of Ireland:
E-mail: canadalife@montrealtrust.com

United States:
E-mail: webqueries@computershare.com

Transfer agent:

Canada

Computershare Trust Company of Canada
100 University Avenue
11th Floor
Toronto, Ontario, M5J 1Y1
Phone: 1-888-284-9137
Fax: 1-877-713-9293

United Kingdom

Computershare Service PLC
The Pavilions, Bridgwater Road,
Bristol, England BS99 7DS
Phone: 0870-702-0164
Fax: 0117-941-7330

United States

Computershare Investor Services, LLC
P.O. Box A3504
Chicago, Illinois
United States 60690-3504
Phone: 1-888-284-9137
Fax: 1-877-713-9293

Republic of Ireland

Computershare Services (Ireland) Ltd.
Heron House, Corrig Road
Sandy Ford Industrial Estates
Dublin 18
Phone: 01-216-3100
Fax: 01216-3150

Earnings Release Dates:

February 7, 2001;
May 2, 2001;
August 8, 2001 and
November 7, 2001

Exchange Listings:

The Toronto Stock Exchange

Ticker symbol: CL

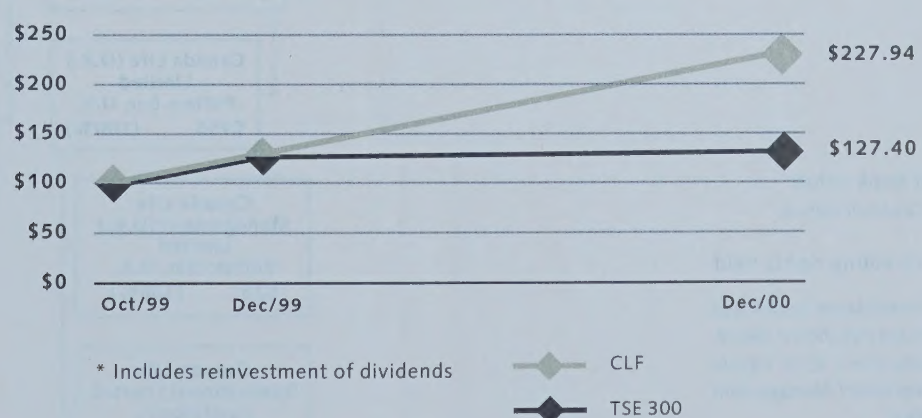
The New York Stock Exchange

Ticker symbol: CLU

Shareholder Dividends:

Shareholder dividends are payable at the discretion of the Board of Directors.

Value of $100* Invested in CLF vs. TSE 300



* Includes reinvestment of dividends

Dividends:

Common Shares

Ex-dividend date	Record date	Payment date	Dividend per share
February 24, 2000	February 28, 2000	March 31, 2000	$0.12
May 29, 2000	May 31, 2000	June 30, 2000	$0.12
August 22, 2000	August 24, 2000	September 29, 2000	$0.12
November 22, 2000	November 24, 2000	December 29, 2000	$0.12

Subsidiaries[1]

Canada Life Financial Corporation

The Canada Life Assurance Company
$3,138 (100%)

- **3605744 Canada Inc.**, Toronto, Canada, $874 (100%)

Canada
- Canada Life Mortgage Services Ltd., Toronto, Canada, $3 (100%)
- Adason Properties Limited, Toronto, Canada, $3 (100%)
- Kanetix Ltd., Toronto, Canada, $1 (98%)

United States
- Canada Life Insurance Company of America, Atlanta, Georgia, U.S., $246 (100%)
- Canada Life Insurance Company of New York, Ardsley, New York, U.S., $41 (100%)

International and Reinsurance
- Canada Life of Brasil, Rio de Janeiro, Brazil, $6 (100%)
  - Canada Life Pactual Previdéncia é Seguros S.A., Rio de Janeiro, Brazil, $6 (90%)

United Kingdom
- The Canada Life Group (U.K.) Limited, Potters Bar, U.K., $1,198 (100%)
  - Canada Life Asset Management Limited, Potters Bar, U.K., $5 (100%)
  - Arch Fund Management Limited[2], Potters Bar, U.K., $1 (100%)
  - Canada Life Limited, Potters Bar, U.K., $1,192 (100%)
    - Canada Life (U.K.) Limited, Potters Bar, U.K., $156 (100%)
      - Canada Life Management (U.K.) Limited, Potters Bar, U.K., $23 (100%)
      - Canada Life International Limited, Castletown, Isle of Man, $113 (100%)
      - Canada Life Services (U.K.) Limited, Potters Bar, U.K., $4 (100%)
      - Canada Life Managers (U.K.) Limited, Potters Bar, U.K., $5 (100%)

Republic of Ireland
- Canada Life Irish Holding Company Limited, Blackrock, Republic of Ireland, $220 (100%)
  - Canada Life Assurance (Ireland) Limited, Blackrock, Republic of Ireland, $212 (100%)
  - Setanta Asset Management Limited, College Park House, Republic of Ireland, $2 (100%)
  - Canada Life Assurance Europe Limited, Blackrock, Republic of Ireland, $6 (100%)

Notes:

$ value = consolidated book value (in millions of Canadian dollars)

% value = percentage of voting rights held

(1) *Subsidiaries with a consolidated book value of less than $1 million are not shown above. Additionally, the Company's 35% equity interest in Laketon Investment Management Limited is not included.*

(2) *Formerly named Addason Property Management Limited.*

Design: **Velocity** Board and Senior Management Photography by: **Paul Orenstein Photography** Printing: **Bowne of Toronto**

Annual Meeting:

Shareholders and Policyholders are invited to attend our concurrent annual meetings on Thursday, April 12, 2001 at 10:30 a.m. at Canada Life, 330 University Avenue, Toronto, Ontario, Canada

Canada Life

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Toronto, Ontario, Canada M5G 1R8
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Website: www.canadalife.com